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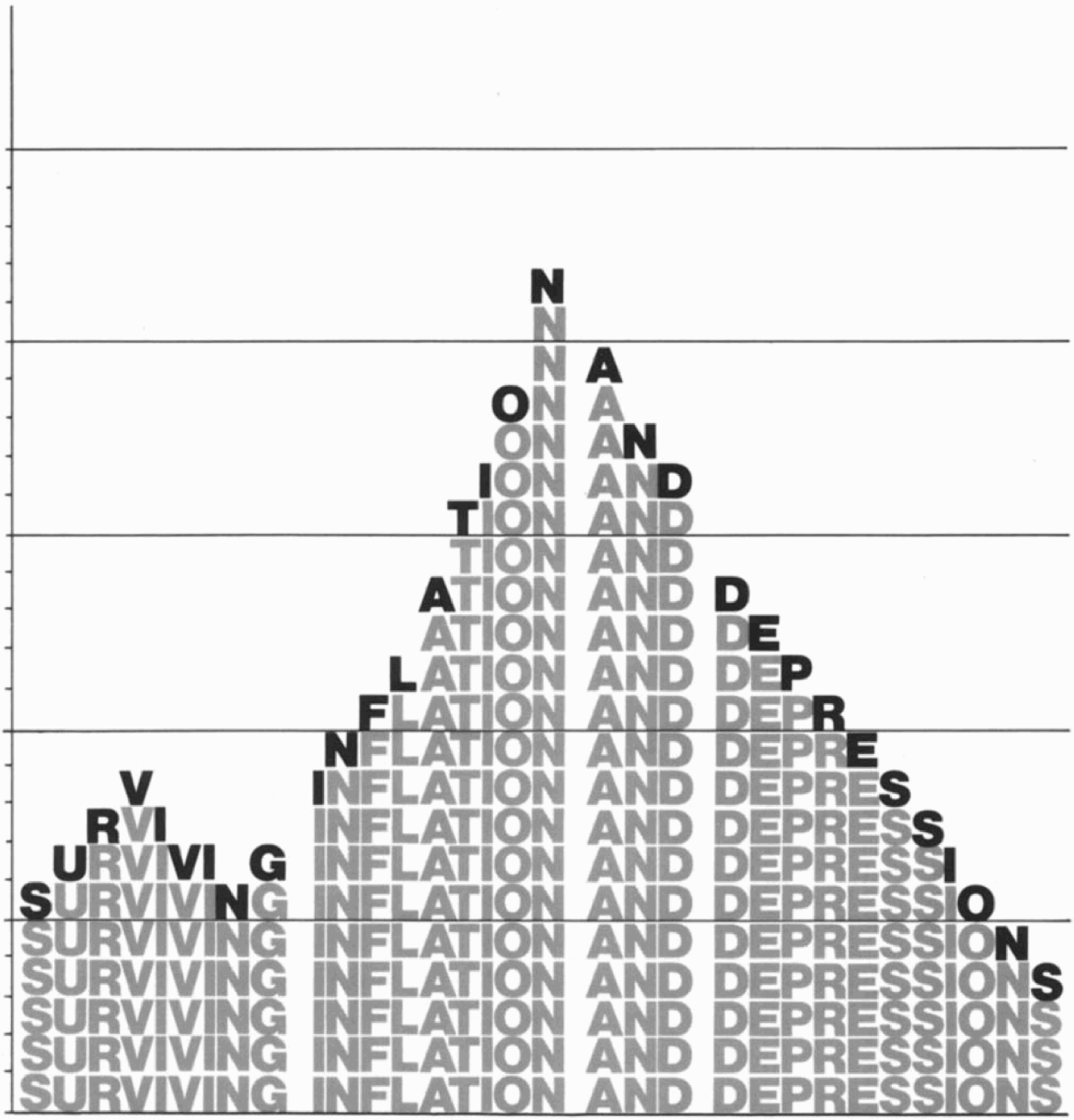

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VOL. II NO. VIII

THE ECONOMIC ARMAGEDDON THAT IS COMING, AND HOW IT WILL AFFECT YOUR LIFE...

One of the hardest things for a person to try to do is to convince you that you are in deadly danger when you cannot clearly see the danger yourself. Yet this is the task we have set ourselves for this INTRODUCTORY ISSUE of International MONEYLINE. As a result of nearly three months of off-the-record discussions with leading American foreign exchange experts, Swiss bankers, European central bankers and 27 officials of OPEC (the Organization of Petroleum Exporting Countries) in Vienna, Beirut and Algiers (See Never the Twain, page 4), we are convinced that an economic confrontation is shaping up that could change your life and the lives of your children for evermore.

Storm warning of the coming disaster is the crash of the U.S. Dollar (See chart below) which has gone unnoticed by most Americans, who are busy worrying about their jobs or the stock market. Yet, the continued decline of the dollar not only has sealed its doom as the world's reserve currency, it has guaranteed that the forthcoming "economic dialogue" with the OPEC countries will fail, and has set the stage for the final disintegration of the western world's economic system as we have known it.

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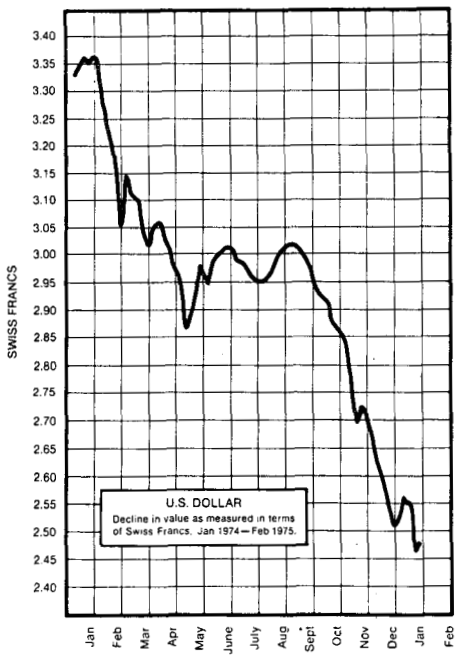
MONEY MAKING FORECASTS

What makes us so sure we are right? All we can offer you is our method of economic analysis -- used by no other publication -- and our record for 1974. Last year, we accurately forecast an increase in the price of gold to $200, called the rate of inflation to within less than a percentage point (we predicted a 15 percent rate of inflation in January, compared to an actual yearend figure of 14.6). We predicted the $6 high for silver, enabling some subscribers to make a killing on margin; we correctly diagnosed the movement of interest rates and carried a projection, in May, of the great 1975 selloff in industrial commodities. In addition, last January, based on Washington sources, we made an unqualified forecast that Richard Nixon would resign before the end of the year. (We now say Gerald Ford will go before the end of his term, to be replaced by Nelson Rockefeller.)



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In making our economic forecasts, we do not use Keynesian theories, computer mumbo-jumbo or hopeful hip-shooting. Instead, we rely upon what we at IML like to call "inflationary theory" which is really not theoretical at all, but which relies upon a systematic study of economic history -- of how people, governments and markets have behaved during inflationary situations of the past -- as a basis for projecting future events.

For example, the "crash of the dollar" is a more or less standard historic phenomenon that has been duplicated by many currencies, and has always led to new rounds of inflation in the country of devaluation. (Cont. on pg. 2...)

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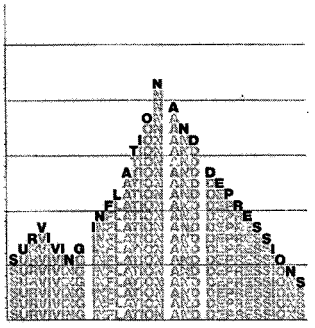
JUNE 1975
THREE DOLLARS
SPECIAL FINANCIAL ISSUE



editorial introduction

Not since the 1930's has the economy of the United States—or of the world—been in such dismal shape as it is in 1975. Inflation, though temporarily cooling off to the "low" level of 7 to 8 percent, seems likely to take off again soon as a result of the upcoming years of hundred-billion-dollar Federal deficits. Industrial production and employment continue to drop as recession teeters on the edge of depression. Our fiat dollar continues its relentless decline while the gold-backed Swiss franc reaches new heights.

Surely, one might think, with results such as these the interventionists should see the error of their ways: that prosperity cannot be created via the printing press, that laws cannot cure unemployment, that each forcible intervention in the marketplace creates distortions that "justify" further corrective interventions, which create more distortions, etc. Unfortunately, however, such a presumption does not accord with reality. If you think today's economic controls are bad, just wait a few years!

Whether out of power-lust, naivete, or fear of the effects of economic freedom, an influential group of economists, bureaucrats, and business and labor leaders has begun a concerted effort to establish centralized government economic planning. Led by economist Wassily Leontieff, the group advocates creation of an Office of National Economic Planning which would develop five-year plans for the U.S. and coordinate all government economic policy. Advocates deny that the new agency would coerce business; instead, it would simply "indicate the number of cars or the quantity of frozen fruit juice it believes optimal and try to induce industry to go along." Just like "voluntary compliance" with wage and price controls and the IRS!

That such a proposal could be advanced and supported by leaders of American industry such as Robert Roosa (Brown Bros. Harriman & Co.), Leonard Woodcock (United Auto Workers), Henry Ford II (Ford Motor Co.), Irwin Miller (Cummins Engine Co.) and John P. Bunting (First Pennsylvania Corp.) is an indication of just how fast this country is approaching a fascist-type corporate state, in which the lives and livelihoods of everyone are directed from Washington. We are not there *yet;* indeed, it will probably take several more years of government-caused economic misery before the demands for "stability" and "order" can be manipulated into political support for complete centralized economic control. Thus, we can expect intensifying "stagflation" in the years ahead.

It is against this dismal background that we present this second annual issue of REASON devoted to the subject of financial survival. The issue begins with several discussions of the overall problem. Harry Browne updates the advice on gold, silver, and Swiss francs given in his best-selling *You Can Profit From a Monetary Crisis,* while William F. Rickenbacker addresses himself to the problem of trying to beat inflation. Alexander Paris and James Sinclair fill in the background on the key factors affecting, respectively, the national and international economic pictures.

Next we present a series of articles dealing with specific aspects of surviving in the uncertain, dangerous world that lies ahead. Dr. Harry Schultz explains the advantages of operating simultaneously from several different countries, while Wain Dawson and David Bergland discuss various ways of avoiding confiscatory taxation. If an economic collapse *does* occur, the advice offered by Smith and Baldwin on preparing an escape could prove invaluable. Providing yourself with food and a means of self-defense for times of crisis is discussed, respectively, by Paul Benjamin and James Powell.

The articles by Raymond Daly, Victor Chigas, and Norman Lamb offer specific ideas for investing, of the kind you probably will never hear from your broker, but which deserve serious consideration in times like these, when the normal investment wisdom simply does not apply. Eugene Guccione offers a host of practical suggestions for keeping your business viable in today's topsy-turvy economy. And because of the continued importance of gold in the world's economy, we offer contrasting perspectives on the "barbarous relic" from John Exter and Milton Friedman, together with articles on the prospects for U.S. gold coinage and the revival of gold clause contracts.

There are two other articles in this issue, which I have left until last to discuss. They do not concern investments, nor do they concern other aspects of direct self-protection. Rather, Murray Rothbard and William Marina argue that the basic problem we face goes well beyond individual financial survival. What is literally at stake is the survival of our civilization and the values of freedom and individualism that make it possible. Both Rothbard and Marina argue, in different ways, that the preservation of these values and of institutions that put them into practice is of the utmost importance. We agree. That is why we publish REASON, and why it contains far more than just financial and self-preservation advice.

It is not enough simply to minimize the harm caused you today by the rampages of the State. Left unchecked, an expanding State will eventually destroy our economy, and with it, our civilization. Our task is nothing less than to stop the Juggernaut and roll back its vast power . . . or, failing that, to survive the collapse and rebuild a free society from the rubble. REASON's aim is to provide the ideas—the intellectual tools—needed for this task. We hope you will join us in the months and years ahead.

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These are the best of the "hard-money" authorities who have been proven correct in their recommendations as often as the economic spokesmen for the government and the brokerage firms have been proven wrong.

Some of these experts charge private consulting rates as high as $1,000 per hour! Some of them publish newsletters that would cost you as much as $175 per year. And you would have paid as high as $375 to attend the seminars described below.

Inflation Survival Letter has made arrangements to offer you on-the-spot cassette recordings of the very best of these seminars at a mere fraction of what you would have paid to attend.

These cassette recordings are *unconditionally guaranteed.* If you are not completely satisfied for any reason at all, return the tapes within three weeks for a full and immediate refund!

1974 Monetary Symposium

Speakers / Senator James A. McClure, Douglas E. Johnston, John Kamin, Richard Russell, Professor John Hospers, John Exter, Thomas J. Holt, C. V. Myers, John McFalls, Alden R. Wells, and Hans F. Sennholz.

Sponsored by the National Committee to Legalize Gold, the 1974 Monetary Symposium was by far the most successful such gathering ever held. 750 persons paid $250 each to hear the most imposing lineup of "hard-money" experts ever assembled up to that time.

Virtually every conceivable topic concerned with monetary economics and alternative investments is discussed by some of the world's leading experts . . . *prospects for the gold mining industry . . . oil and gold and the future of the Middle East . . . the prospects for gold—long term and short term . . . the outlook for continued inflation . . . the risks and rewards in "penny gold stocks" . . . the credit and debt structure, will it collapse? . . . will the D.J.I.A. reach 500? . . . is a 1929 style crash a real possibility? . . . and much more.*

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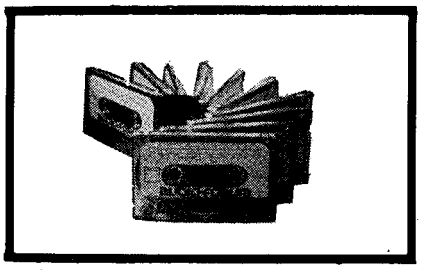
Price Inflation: Causes, Consequences, Remedies

Speakers / (partial list) Donald L. Kemmerer, Patrick Boarman, Thomas F. Johnson, Eugene Guccione, Congressman Philip M. Crane, Henry Hazlitt, John Chamberlain, C. Carl Wiegand, Lawrence Fertig, Gary North, Arthur Kemp, Yale Brozen, Donald I. Rogers, Colonel E. C. Harwood, Hans F. Sennholz, George S. Moore and Senator William Proxmire.

A two day conference sponsored by the Committee for Monetary Research and Education was held in Washington, D.C. November 13 and 14, 1974 and brought together a virtual "Who's Who" among monetary economists—names like Hazlitt, Chamberlain, Fertig, Brozen, Rogers, Sennholz and Harwood.

Including both individual lectures and panel discussions the conference ranged across such topics as . . . *waste in government . . . money supply, causes of price inflation . . . goods supply, causes of price inflation . . . economic costs of price inflation . . . social and political costs of price inflation . . . fiscal controls and income policies . . . solutions to price inflation.*

Representatives of *Inflation Survival Letter* attending the proceedings regard this as one of the outstanding conferences held in the realm of monetary economics. A great deal more emphasis was placed in this conference on discussions and analysis of the policies that have led to the present monetary disorders than in any other conference of our knowledge. With



speakers ranging from Senator William Proxmire, one of the Senate's fiscal watchdogs, to Colonel E. C. Harwood, the dean of America's "hard-money" advocates, a perfect blend of the theoretical and the practical has been achieved in this set of tapes.

Admission to this conference was $200. The cost of the tapes is just $75, a savings of over 60%! **Tapes 281-290 / 12 hrs. Price $75.**

Financial Security in the '70's

Speakers / Douglas Casey, James Lawlor, Wainwright Dawson.

This excellent presentation brings together three Washington, D.C. specialists whose themes unite into a well-balanced and informative seminar.

Douglas Casey delivers a superb and logically ordered statement on the origins of money, explaining how gold achieved its status as a monetary metal. Casey explains how banks have reached their present illiquid state and shows why a collapse of the banking structure is a strong possibility for the future.

Mr. Lawlor is a specialist in numismatic and bullion coin investments. He delivers an informative address with considerable practical information and advice for the potential investor in coins.

Wainwright Dawson is a specialist in the use of tax havens to minimize capital gains taxes. He discusses the various tax haven countries, distinguishes them from money haven countries and discusses the use of foreign bank accounts.

Altogether we consider this one of the better seminars we have attended from the standpoint of the amount of practical information dispensed. **Tape 265 / 2 hrs. Price $20**

A Swiss Banker Discusses Inflation

We have all heard of the "Gnomes of Zurich" and in November, 1974, the *Inflation Survival Letter* was on hand as one of the leading "gnomes" F. W. Schulthess, chairman of the huge Swiss Credit Bank of Zurich addressed the National Press Club in Washington, D.C.

While concentrating mainly on inflation which he regards as the world's number one problem, Mr. Schulthess also touches on the conditions of business and industry, the effect of oil on world-wide inflation, currencies, exchange rates and balance of payment problems.

Mr. Schulthess explains why he believes the democratic institutions of the West are threatened by "stagflation"—inflation coupled with unemployment or more simply put, an inflationary recession. Mr. Schulthess warns that a tidal wave of price increases is now flooding the world . . . and that the western world seems to be "heading for a severe crisis."

Mr. Schulthess then goes on to analyze the causes of this international monetary crisis and outlines the actions which he believes the nations of the West must take in order to avoid economic collapse.

A superb and enthralling speaker whose knowledge of international monetary economics is on a level with any expert we have ever encountered. Mr. Schulthess' address is useful and informative. **Tape 234 / 42 mins. Price $7.50**

Wealth Protection Seminars

Speakers / Anthony T. Easton, Jerome F. Smith, James L. Cawdrey, James M. McKeever and Don Stephens.

The Wealth Protection Seminars were conducted in five cities in September, 1974. This is a live recording of the New York presentation and includes the complete question and answer period following each speaker's presentation.

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- ☐ Von Mises, Ludwig, *Why Socialism Always Fails*, Tape 155 / 86 minutes $9.95.

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what's ahead for gold, silver and swiss francs

Harry Browne

At times, it seems the entire investment world is split between two camps. On one side are those who believe that gold can do no wrong; on the other are those who believe that gold is no more important than any other commodity—in fact, *less* important—and that gold's increase in price is due purely to irrational expectations.

There is a third viewpoint however (and, I'm sure, a fourth and a fifth, etc.), that treats gold as a vehicle for personal profit. This viewpoint looks for the reason for gold's appreciation and tries to determine when that appreciation can be expected to end. I'll try to explain that viewpoint in this article.

I won't bother to re-explain the value of the gold standard in this article—as I've done so at length in my books. The conclusion of that explanation is that any currency not convertible at will into gold at a stated rate is going to have problems.

It's important to realize, however, that the abandonment of the gold standard has a greater effect upon the currency than it does upon the price of gold—especially in any short period. When the U.S. Government abandoned gold convertibility in 1933, it would have been an excellent time to buy some gold overseas and hold it through the devaluation that followed.

But once the devaluation had occurred, gold was a poor investment for 37 years—although I must admit I might not have realized that in 1934, had I been old enough or interested enough to think about it.

In the meantime, the deterioration of the currency (as a result of the abandonment of gold) created many investment opportunities and crises. Anyone who understood the significance of gold could have profited from that understanding.

Because the U.S. Government devalued the dollar more than necessary in 1934, the $35 price of gold was too high until 1949. That might seem to be a sweeping assertion, but it's easily demonstrated.

The U.S. Government agreed to buy *or* sell gold to anyone in the world (except U.S. citizens) at $35 per ounce. Until 1949, it bought far more gold than it sold; the market, in general, preferred 35 more dollars to one more ounce of gold. Beginning in 1949, the Government *sold* more gold at $35 than it bought. And that trend accelerated greatly during the 1960's, as the market's valuation of gold rose further and further away from $35.

The Government's agreement to buy or sell gold at $35 was an effective form of price control. The price couldn't go much above or below $35 as long as the Government was in the market. No one would sell for less than $35, nor buy for more than $35, as long as the Government willingly traded at that price.

The price control lasted for 34 years—from 1934 until 1968 when the Government stopped selling gold (the 1971 closing of the gold window was an after-the-fact declaration). From 1934 to 1949, the Government held the price *up;* from 1949 to 1968, it held the price *down.*

Had the Government not controlled the price, we can assume that gold would have risen in price fairly steadily from 1949 until recently. But the rise would have been reasonably gradual and not dramatic enough to represent an outstanding investment opportunity.

Price controls invariably result in dramatic swings of price after the controls end. And therein lies one of the great values of economic understanding. If you understand how government policies distort the marketplace, why rant and rave about them—since you probably won't change anything anyway? In-

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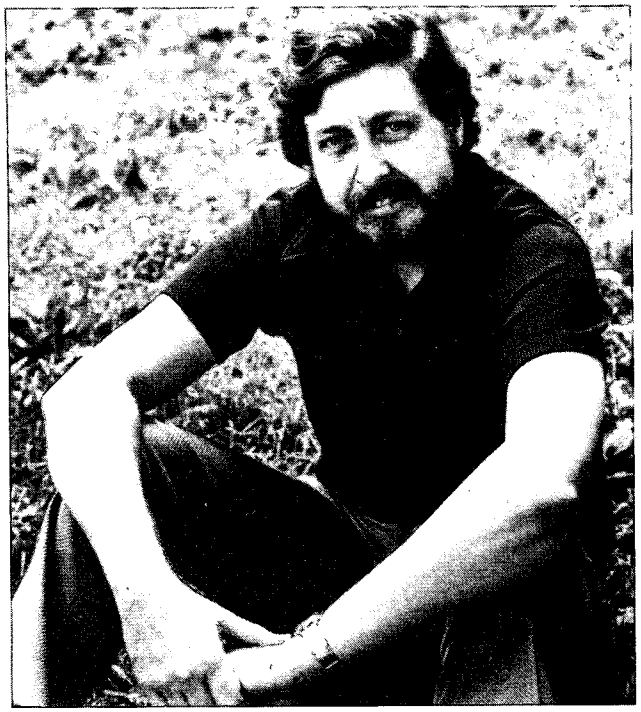
Harry Browne is the best-selling author of How You Can Profit from the Coming Devaluation *(1970),* How I Found Freedom in an Unfree World *(1973), and* You Can Profit from a Monetary Crisis *(1974). Now, he has no plans for an additional monetary book. Instead, he is working on a long-cherished book on opera and is offering his investment advice through* Harry Browne's Special Reports *– a newsletter selling for $175 for 10 issues.*



stead, use your understanding to foresee the dramatic changes that will be caused—and bet on those changes.

PRICE CONTROL OPPORTUNITIES

Price control periods are usually short. When they end, the price rise may occur so suddenly that you don't have time to take advantage of it. But there are three principal assets that were price controlled for such long periods that they resemble the proverbial "once-in-a-lifetime" opportunities. They are gold, silver, and strong foreign currencies.

As I've mentioned, the effective price control on gold lasted from 1949 to 1968. Silver was held down in price from the middle 1930's until 1967. And currencies were price-controlled from 1944 to 1973.

These exceptionally long periods have created exceptional opportunities. First, such long periods suggest that the prices would have to rise by large amounts after the controls end. And second, the commodities became such bargains toward the end of the control periods that many people bought them for speculative purposes. These people have since resold much of their holdings to the market—and thereby have tended to delay the price rises, giving the rest of us time to become involved.

By now, a great deal of the potential post-control increase in prices has already occurred. Since 1968, gold has risen from $35 to $175 (as of February 13, 1975), an increase of 400 percent—and most of that has occurred since 1971. Since 1967, silver has risen from $1.29 to $4.25, an increase of 230 percent—and, again, mostly since the end of 1971. Since January 1973, the Swiss franc (in my opinion, the strongest foreign currency) has risen from 26¢ to 40¢, an increase of 55 percent.

WHY THE INCREASES

An understanding of the price control reasoning explains the errors in both of the investment camps mentioned at the beginning of this article.

First, the price increases haven't been irrational; they have been the inevitable effects of the price controls that preceded them. And second, the price increases won't continue forever. They will continue until the assets involved have regained their natural places in the market. Each of these assets is seeking to offset the price suppression of the past. When that has been accomplished, the dramatic increases will end.

When will it be accomplished?

It isn't easy to forecast timing. But the hardest part is forecasting when the price rise will *begin* after the controls have been lifted. The available supplies outside of the government's hands can delay the price rise unpredictably (in the case of silver, the delay was four years). But once the rise has begun, it can be expected to continue fairly steadily until its completion—subject to fluctuations along the way.

I expect the prices of all three commodities to stabilize within the next three years or so. If this time estimate is reasonably correct, it will be more important to determine how much price increase is still to happen.

If one can expect at least 50 percent appreciation over the next three years, it will probably represent a more profitable investment than the stock market, real estate or any other traditional investment.

My estimates of price potentials for the three investments are:

Gold: $250-400 per ounce, an increase of 43-125 percent from $175;

Silver: $10-20 per ounce, an increase of 175-370 percent from $4.25;

Swiss franc: $.60-1.50, an increase of 50-275 percent from $.40.

The side range of possibilities I've given might seem to be hedging too much, but I don't think so. The important figures are the low ones. If the minimum potential makes the investment worthwhile, the rest is all gravy.

Here's a brief summary of the reasons for these estimates.

GOLD

If one thing is certain to me, it is that gold convertibility will return. The currencies of the world won't function satisfactorily without it; and it's obvious that they're already hurting badly for lack of gold convertibility. The convertibility *will* return—either before or after a total collapse of most currencies.

Gold's potential price can best be determined by estimating what the official price will have to be in order to permit convertibility of the U.S. dollar—without causing a run on the gold supply that liquidates it completely.

If the dollar were convertible today, the net foreign claims upon the U.S. Government gold supply would be approximately $100 billion. If the dollar were convertible into gold at $42.22 per ounce, only $11.65 billion of the claims could be covered and the gold would be all gone.

Since convertibility has been delayed so long, I think that *all* the claims will have to be coverable to prevent a run on the gold supply. Anything less would create enough uncertainty to induce every claimant to want to get his gold before it's too late.

"Any currency not convertible at will into gold at a stated rate is going to have problems."

To cover all the claims, the gold would have to be valued at $362 per ounce. It may take less than this, but I would consider $250 to be an absolute minimum.

If convertibility is delayed too long, the price will necessarily go higher in the free market—because gold will be needed to settle contracts for which the dollar is too unstable. For example, oil-selling governments might be less concerned about the prices they get if they thought the payment medium wouldn't depreciate as rapidly as the dollar is now depreciating.

If $362 isn't necessary, $250 is certainly a minimum. And while a 43 percent increase isn't an outstanding potential, it's probably the surest bet that exists today. The international monetary situation will remain terribly unstable at least until gold is $250—and maybe beyond that.

So, while gold has the least potential of the three, it's the surest thing for the future—and thus represents safety in an investment program. For a number of years, it should increase in price yearly by at least the rate of price inflation.

Of course, the reason that its current potential is the smallest is that it has already achieved most of its long-term potential.

SILVER

Silver is probably the most speculative of the three. It has more than tripled already—but still has tremendous potential left. The world silver shortage, which was caused by the price controls, hasn't even been dented yet. It will take much, much higher silver prices to discourage enough silver users to bring supply and demand into harmony.

A long-term depression wouldn't hurt silver prices, because it would depress copper, lead and zinc production—the source of silver production. But in the short term, silver consumption can be hurt as much or more than production—thus holding back the price rise.

But one day, not too very far away, silver prices will explode upward again—as they did from $2 to $3 in 1973 and from $3 to $4 in 1974. Anyone who's waited patiently will be rewarded once again.

SWISS FRANC

The Swiss franc is the greatest mystery. That's because its future depends upon the actions of the Swiss Government—while gold and silver are ultimately impervious to government action.

The Swiss Government suffers from the mistaken belief that it must protect its exporters by holding down the price of its currency. It does a disservice to all Swiss consumers and producers thereby, but I can't expect the Swiss government to realize that.

For several years, the Swiss Government inflated its currency in order to hold the Swiss franc price to 23¢ and then 26¢. Finally, in January 1973, it threw in the towel and allowed the franc to float. The price immediately rushed upward.

But in the fall of 1973, the Swiss Government lent Swiss francs to the Federal Reserve Bank of New York. With these, the Federal Reserve purchased dollars in the open market to depress the Swiss franc and prop up the dollar.

The ploy worked—temporarily. In 1974, the loans had to be repaid, in Swiss francs, and when the Federal Reserve purchased the necessary francs in the open market the Swiss franc price rose again. This is a demonstration of the temporary nature of government "solutions."

In the middle of 1974, the Swiss franc was under heavy buying pressure. More francs were lent to the Federal Reserve to buy dollars. This time, the intervention only slowed the rise; it didn't halt it or reverse it. And then, in late 1974, when the loans had to be repaid, the franc moved upward by 15 percent—from 34¢ to 39¢.

At the beginning of 1974, the Swiss franc threatened to go through the roof. More francs were lent to the Federal Reserve to buy more dollars. And this time the Swiss National Bank intervened directly—buying dollars in the open market with Swiss francs.

Just after the beginning of the year, the franc crossed 41¢, but the intervention pushed it back down. However, despite the tremendous selling pressure from the governments involved, the franc dropped less than two cents.

As always, the governments are fighting a losing battle. The price has to go up because, compared to dollars, there just aren't enough Swiss francs to go around. It isn't just speculators and long-term investors who are pushing the price up; it is the normal requirement for currency to use in transactions—and relative to other currencies, there's too much of the other currencies.

The only way the increase can be avoided is with a massive printing of Swiss francs by the Swiss government. But to stabilize the Swiss franc permanently at 40¢, the Swiss Government would have to increase the Swiss money supply by 275 percent! It won't happen.

However, there's no way to know *how far* the Swiss will go before the consequences of such inflation start causing visible new problems at home. Although the present absolute potential for the franc is $1.50, the Swiss may chip away at that.

So far, it looks very good for the franc. Since the middle of 1972, the Swiss money supply hasn't increased at all. But I don't know how desperate the Swiss Government might become when the franc starts moving again in earnest. My guess is that they will continue to invervene from time to time—but each time at higher price levels.

No matter what the outcome, the Swiss franc is an important investment tool because of its small short-term downside risk. While gold and silver fluctuate widely in the short term, the Swiss franc can be expected to drop no more than 15 percent in any temporary downturn. This provides liquidity to an investment program—the opportunity to sell one item at a minimum loss when cash is needed unexpectedly.

INVESTMENT STRAGETY

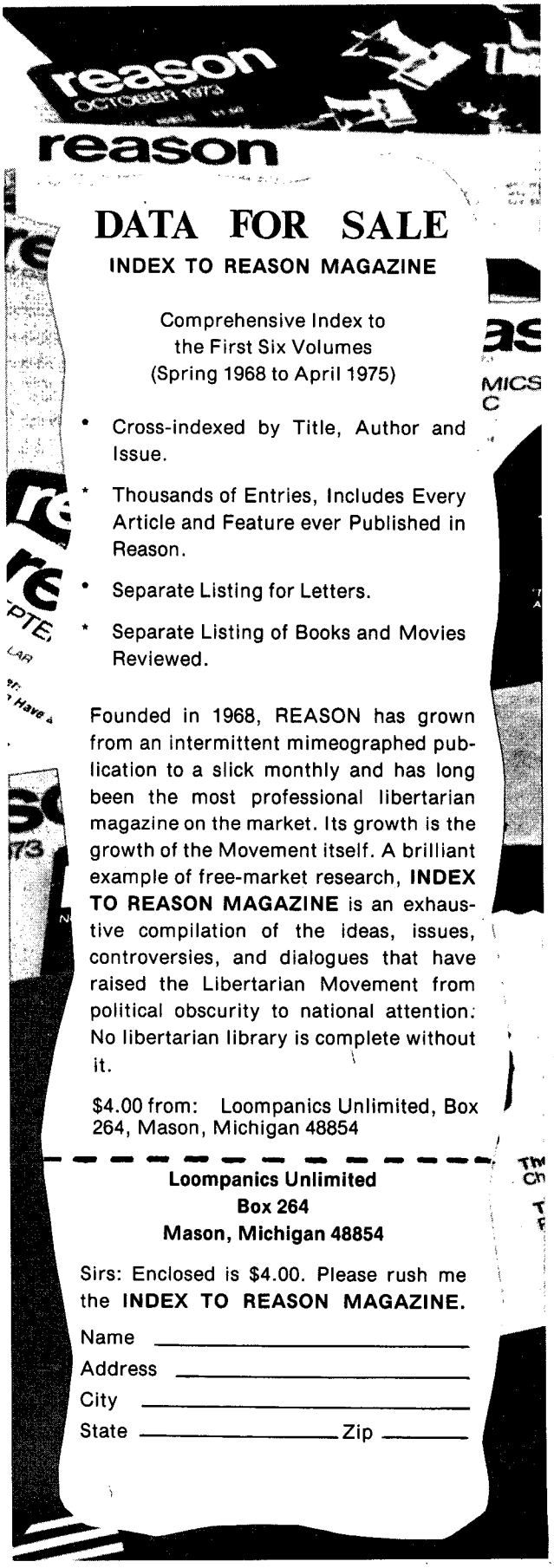
No investment advice can be valuable if it doesn't consider individual personal differences. So I won't attempt to suggest a hard-and-fast investment program. You have to determine that for yourself.

However, as a place to begin, you can consider splitting investment funds that are aimed at long-term capital growth equally between gold, silver and Swiss francs. Gold represents a certainty of value—no matter what happens. Silver provides the opportunity for big profits—completely independent of whatever governments decide to do. And the Swiss franc offers liquidity, coupled with a chance for big profits.

Just remember, for the next few years, gold will be a helpful part of a larger investment program, but don't overestimate its investment value. Its phenomenal rise hasn't been a fluke or the result of irrational speculative activity. But, on the other hand, it can't be expected to last forever.

One suggestion that you might find useful is to begin reducing the percentage of your funds in gold after it exceeds $200 in price. From there on, its potential increase could be as small as 25 percent—which isn't enough to get excited about. However, it could also surprise me by sailing through $300 one day—and I wouldn't want to have sold all my gold and be watching from the sidelines.

Fortunately, gold, silver and Swiss francs haven't moved together. So now that gold is getting close to the point where its phasing out of the investment program should begin, there are silver and Swiss francs to take its place. ◻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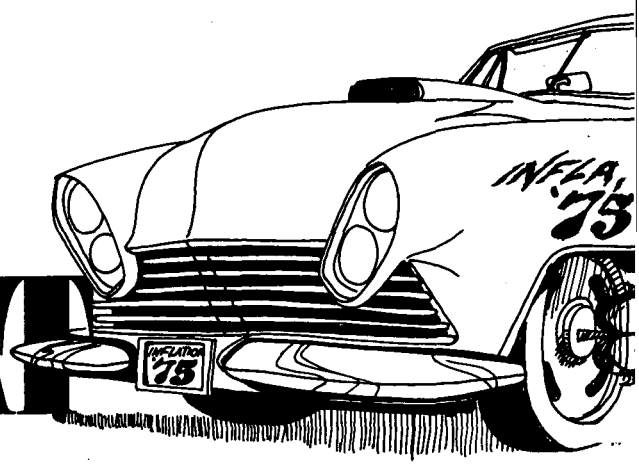

The unhappy news is that no general escape from inflation seems to exist. The reason for this is that inflation requires the citizen to protect himself through speculation. Since there is a loser on the wrong side of every successful speculation, the nation as a whole cannot hope to escape the damage of inflation through speculating. In fact, since inflation is a disease in the money system (not in wages, not in doctors' bills, not in oil prices, but in the monetary system), there is no way to escape the disease other than to escape from the money itself—remove your capital from the monetary circuit.

This is, to some people, a bitter pill to swallow. They have grown accustomed to the "game" of beating inflation. Either they are happy speculators or they are thriving adventurers who publish books on "survival" by retreating into the wilderness and planting a vegetable patch while holding the barbarians at bay with their trusty flintlock. Such grotesque advice does not amount to beating inflation at all: one has simply preserved one thing—a pile of silver and gold coins, or a handsome Swiss bank deposit—at the expense of something else: one's standard of living. The more difficult question is whether you can beat inflation while maintaining your standard of living. Since the question is difficult, it is ignored by the quacks and the sensationalists. Let us leave them up there in their huts in the North woods, with their tummies aching from too much raw food, and their longing to be back again within a 10-minute drive of a doctor's office. If they call that "survival," God bless them.

INVESTMENT SURVIVAL

No, an investment adviser should speak of investment survival. The historical record is not silent on the subject; indeed, inflation and the destruction of paper currencies are the general rule of economic history. The best-recorded, longest, most recent, and most instructive example is the French inflation between 1914 and 1958. In this period the "M1" money supply (hand-to-hand currency plus demand deposits) multiplied by a factor of 632. This great increase in nominal demand caused a great rise in prices. Construction costs in Paris went up by a factor of 320. Labor costs went up by a factor of 300, wholesale prices by 205, retail prices by 200, the official gold price by 190, the stock market index by 80. Selected gold coins went up by a factor of 280, doing 50 percent better than gold bars. Genuine antiques did best of all.

Real estate? Ever since the Pilgrims came to shore, we have seen real-estate boomerism at work in America. The average American, even today, thinks real estate is the "best hedge" against inflation. Not so. The French experience shows that urban real estate suffered tremendous losses from deterioration of properties under rent control (and controls always arrive when the inflation begins to hurt), and that agricultural real estate was even trickier because of the unpredictable effects of farm subsidies on land values.

A few more numbers:

Year	Index of Commodity Prices	Index of Gold Price (francs)	Index of Bond Values	Index of Stock Prices
1914	100	100	100	100
1919	246(unoff.)	105(unoff.)	82.7	117
1928	544	492.5	75.7	315
1938	647	960	75.5	204
1948	8,349	13,820	89.1	1,997
1958	18,408	16,031	104.1	7,010

Think about those numbers for a moment. The experience with the gold price looks rather attractive, doesn't it? But remember that you would have to

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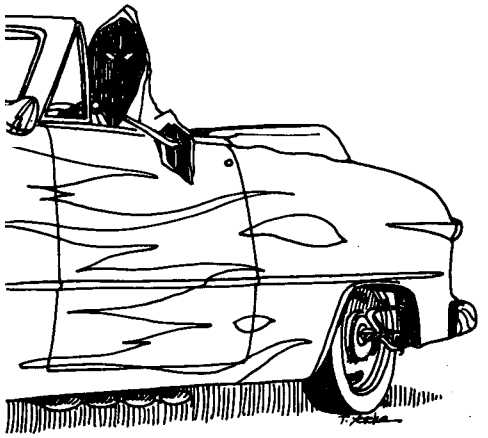
hold your wealth in this form for 30 or 40 years without receiving a sou of income, and in fact it would have cost you money to protect and store your holdings. This is not an "investment" to "beat" inflation, but an emergency procedure for avoiding catastrophe. And it is not fool-proof. Suppose you rightly understand the situation and put everything into gold bars. Suppose you erroneously decide that the inflation has ended and you sell your gold bars and put the proceeds into financial assets, or real estate, or any of the very numerous inferior investments. You will lose your shirt after all; thanks to gold, you will lose a larger shirt.

Are there some common stocks that do better than others? Quite obviously yes. Between 1914 and 1938 the following groups did better than the price index: insurance companies, miscellaneous mines (can you guess why?), chemicals, textiles, gas and electric companies, and colonial and overseas enterprises (guess why?). And the following did worse: banks,



William F Rickenbacker

coal mines, forges and foundries, metals and machines, shipyards, construction materials, rails, transit companies, navigation, miscellaneous industries, and merchandising.

EFFECT OF GOVERNMENT

Many of the distinctions between industries should be attributed to the governmental and bureaucratic institutions affecting the industries. Nevertheless, the fact that such great differences did exist is highly suggestive. We see the same results in the United States, with some industries prospering and some stagnating under a government ostensibly dedicated to "the general welfare."

Again, between 1938 and 1958 the commodity index went up by a factor of 28 and the gold price by a factor of 16.7. In the same period oil and gas stocks went up by a factor of 168, mines by a factor of 29, metallurgy by 52, machine tools 32, automotive and accessories 31, construction materials 29, chemicals 24, food manufacturing 20, textiles 30, transportation 36, department stores 42, miscellaneous industries 37, banks 32, mortgage credit 39, insurance 41, and holding companies 32.

Note the tendency of "financial" stocks to keep up with inflation. The reason isn't hard to find. Inflation is an increase in the money supply. Some companies, such as insurance and bank companies, do nothing but handle contracts in "face amounts" of the money supply. As inflation continues, you hear the insurance salesman telling you that you need more "coverage," and you find that your bank balances tend to be "higher." These quantities are the same quantities that enter into the revenues and profits of the companies. So they have an inbuilt tendency to offset the effects of inflation. But don't leap to conclusions. Banks and insurance companies are closely regulated in the "land of the free." Banks invest in bonds, and bond prices go down (see the index of bond values between 1914 and 1958, showing a loss of almost 100 percent of the purchasing power). Insurance companies can be hit with a rash of contrived "catastrophes" as the inflation overturns normal business operations. Towards the end, when speculation twists the judgment of bankers themselves, you will find a growing number of bank failures (note, in the present time, the failure of Salik Bank, Herstatt, Franklin National, San Diego).

SOME TACTICS

It is evident that there is no royal road to shelter from the effects of inflation. I can think of four principal tactics, not one of which is truly comfortable: 1) try to make above-average investments in domestic companies; 2) try to make merely average investments in foreign companies domiciled in countries with stable currencies; 3) buy gold; 4) reform your domestic monetary system.

As for investment in foreign countries with stable currencies—forget it. For various reasons every currency in the Western world is going downhill at least as fast as the dollar.

I advise buying gold or gold mining shares but gold can be confiscated and mines can burn up or be flooded, and I think it is prudent to limit your risk by limiting your gold position to 30 to 40 percent of your portfolio. What to do with the rest?—good question and beyond the scope of this article.

As for reforming the monetary system, I see no possibility of that until the politicians, and the deluded masses who vote for them, learn that inflation is a disease that appears to do some visible "good" while it does infinitely greater damage that remains for many years quite invisible. Our entire political system is built on the assumption that inflation can go on forever, and ever faster and faster; to correct this delusion we must reform our entire political system; do not hold your breath in the meanwhile. ◻

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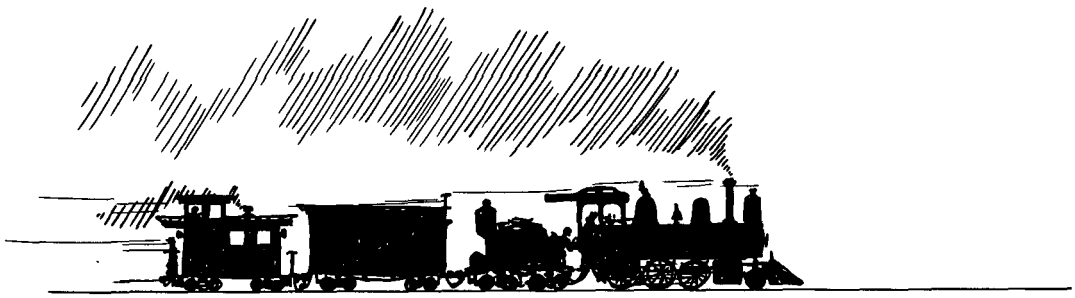

Alexander P Paris

After 1973-1974, it is probably difficult for the investor to believe that 1975 will provide an even sterner test of his analytical acumen. Early in the year, his courage will be tested by the sharpest recession since the 1930's. The real test, however, will come later as inflation slows and government officials claim total victory over inflation. The temptation will be strong to return to old investment techniques.

Yet, it will be more crucial than ever to keep the broader long-term economic picture firmly in mind. The true source of all our problems of recent years is secular in nature and not cyclical, and the underlying secular trends are now dominating the business cycle. That is why the old tools won't work in the years immediately ahead. Once the basic problem is clearly understood, the investor can position himself properly.

THE BASIC PROBLEM OF GOVERNMENT INTERVENTION

For some decades, all Western countries have been experiencing growing demands from individuals and special interest groups for a burgeoning list of government services. Increasingly weak governments, fearing political reprisal, have been giving in to all demands. They are buying re-election through increasing government spending and intervention into the private sector. This intervention has led to the massive economic convulsions of recent years. As the government share of the total GNP grows (The United Kingdom is now over 55 percent and the U.S. is not far behind.), the costs of such interference with free markets become increasingly visible. Eventually, the government can no longer expand at the expense of the silent, tax-paying majority.

Government spending, for instance, has been growing at an annual rate nearing 10 percent over the entire postwar period with the rate accelerating since 1965 to 13 percent. Most of the gains can be attributed to transfer payments for which no services are received in return. Transfer payments are simply government extractions from producing taxpayers which are given to nonproducers. Since 1965, such payments by both Federal and State and local governments have grown from $37 billion to a recent annual rate in early 1975 approaching $160 billion. Of the total increase in the Federal budget from fiscal 1970 through fiscal 1975, transfer payments represented 63 percent. The nation is now reaching the point where nonproducers represent an unworkable proportion of the population, and that proportion is an important explanation of the shortage of savings and capital in the economy.

The damaging economic policies that brought the nation to its current condition must be largely blamed on faulty economics that feature increasing government involvement in economic decisions and abandonment of free market solutions. The New Economists of the postwar years went well beyond the suggestions of their intellectual leader, Keynes. They completely replaced stability as the goal of economic policy with a goal of continuous economic growth at any cost and at rates well beyond the abilities of the country. The country was sold a bill of goods that mathematics could be applied to economics to flawlessly predict and control the economy.

FINE-TUNING THE ECONOMY

The New Economists' ill-fated attempts to fine-tune the economy have not only contributed generously to the growth of government spending but also accelerated the growing loss of personal and economic freedom. The policy has led to an unhealthy orientation to short-term economic effects while the long-term damage to the economy is largely ignored. Monetarists and Keynesians alike tend to concentrate on current income flows rather than on the long-term balance sheet effects of current and past mistakes. Even when the potential long-term damage is acknowledged, the immediate political reaction is considered too dangerous to attempt the lasting cure. The government, the public and the media have been so conditioned that they over-react to every change in the economy which leads to many rapid shifts in policy.

The entire process, moreover, has an inflationary bias. Economists generally feel more comfortable curing recessions (for which they feel more intellectually equipped). It is also more popular with politicians than doing battle with infla-

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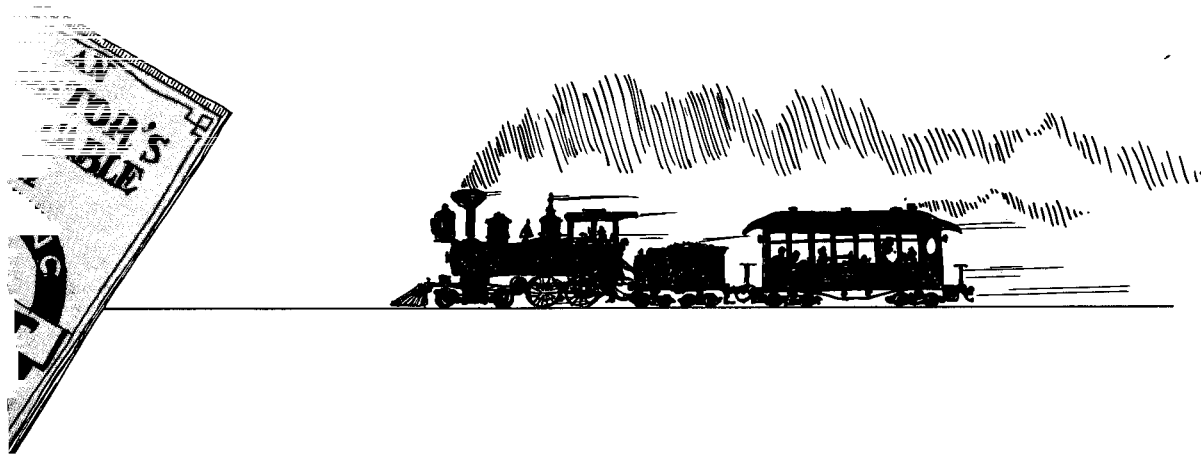

tion. Therefore, policy-makers are always too quick to fight recession, usually before the war against inflation has been won. But voters are also uncomfortable with uncertain prices and the pressure upon government to intervene leads to repression of inflation rather than a cure. This leads to shortages, malinvestment and other distortions, all of which lead to even more government intervention.

Once the principle is established that the government may intervene in the private sector to transfer wealth from one group to another, the process is limitless. In the early stages of such intervention, the costs are hidden. Each intervention causes more undesirable side effects and usually a completely different result than that intended. Rather than reversing the government policy that caused the problem, the government responds by treating the symptoms with further interferences leading to a new set of distortions. Old programs neither die nor fade away but grow, instead, beyond the wildest dreams of the most enthusiastic social planner. Each program develops a fiscal constituency that demands higher benefits. Politicians dare not stand up to such strong voting blocks.

The well-intentioned attempts to fine-tune the economy into perpetual prosperity through government intervention must eventually result in a loss of control. Resources are increasingly allocated for political goals through repressive regulation, taxation, price-fixing and spending. This all must lead to inefficient utilization of our national resources, declining investment, falling productivity and a general short-circuiting of the free market system. The demands of each special interest group will be satisfied until finally the revenue system is strained beyond repair. The wealth of producing workers must be progressively confiscated to support the growing numbers of nonproductive citizens in a style that gives little incentive for getting off the government doles.

FINANCING THE GOVERNMENT INTERVENTION

It is through the financing of government intervention that most of the visible damage to the system is done. The problem begins when the government is not honest enough to tell the voter the true cost of its spending programs. Since the public wants more government services but does not want higher taxes, inflation is the only solution. Unnoticed, it pushes up tax bills even faster than prices. Corporations pay higher taxes on fictitious profits that result from inadequate depreciation and distorted inventory costs due to inflation. Under the progressive nature of personal income taxes, individuals move into higher tax brackets as their nominal income rises due to inflation. Finally, tax revenues from capital gains rise as the monetary value of property exchanged rises due to inflation. The government has used this implicit tax generously over the last few decades.

The actual process of inflating used by the government is much more sophisticated than the old printing press. Federal deficits are now monetized by selling securities to the Federal Reserve System which finds its way into new reserves for the banking system. These additional reserves are then multiplied severalfold into increased money supply. Eventually, the increase in new credit in the private sector far outpaces the rise in government debt. The increase in total credit far exceeds the ability of the nation to increase the production of real goods and services and this is the *only* source of general price inflation. By thoroughly understanding this credit-creation process and tracking its progress, the investor can readily see the direct impact of government intervention upon the financial markets, assess its damage, and project the effects which he must protect himself against.

THE CREDIT PROCESS

If one citizen decides to postpone consumption and to loan a portion of his income for interest, there is no problem. The resources claimed by the borrower with the proceeds of the loan have been released by the saver's decision to forego current consumption. The borrower, when he repays the loan in the future, would be engaging in the act of saving that would release resources for the future

consumption of the first saver. Moreover, the original saving would probably find its way into investment which would result in a higher level of production of real goods enabling both parties to enjoy a higher standard of living. This is the process of real saving and investment that enables a nation to enjoy real economic growth.

"Each intervention causes more undesirable side effects and usually a completely different result than that intended."

But when the Federal Reserve monetizes the government debt, credit is created out of thin air. There is no real saving to offset the increased buying power and multiple bidders for the same supply of real resources exist causing inflation. We have the situation where credit is growing faster than real GNP. Government must step in to close the gap with even more credit and the growth of debt becomes progressively higher over time. Because of the excessive credit growth, corporations and individuals become overburdened with debt. This becomes a serious deflationary force which can only be put off by the expansion of even more credit. This is exactly what the government has been doing. It has been engaging in a battle to delay the ultimate correction that must be made even while it continues to add to the problem. Additionally, corporate funds are drained off to the government through higher income taxes paid on the phantom inflation profits explained earlier. This leads to a growing demand for external funds putting further pressure upon interest rates and upon the Federal Reserve to supply more credit.

As this trend persists, the number of credit-worthy borrowers diminishes and the number of marginal borrowers unable to obtain funds in the private sector grows. This is the cue for the Federal Reserve to step in once again with the credit. As this process continues, along with the accompanying inflation, distortions of all types are caused in financial markets. Lenders leave the long side of the market and marginal borrowers are thrown upon the banking system which, as we will see, is having its own problems. Spreads between different risk levels rise. Volatility in all financial markets rises.

As the trends continue, expectations of future inflation gradually rise. Finally, prices rise even faster than credit and if the government attempts to keep up, the danger of hyper-inflation becomes very real.

PAST CREDIT TRENDS

Having explained the nature of the credit process and dangers of a persistent trend of excessive credit growth, the next step is to examine the *actual* trends. There is little doubt that the nation has endured an extremely long trend of excessive credit growth and judging from the visible side-effects, we are now in a very mature stage of this secular trend.

Over the entire postwar period, the growth in government spending has exceeded the growth of the private sector by over 50 percent. This gap has indeed been financed by both public and private credit growth. During the same timespan, total credit in the economy has grown at an annual rate exceeding nine percent or 2½ times real GNP. Moreover, the pace has been accelerating strongly over the past few years: total debt surpassed the $3 trillion level in June 1974 for a record gain of $898 billion from the end of 1970. The growth in private debt comprised 82 percent of that total demonstrating that public debt stimulates an even faster rate of growth in private debt. Reducing government debt, at this point, is not enough.

Since 1970, total government and private debt rose 42.1 percent. Personal debt has increased at an annual rate of 12 percent since 1970 and now represents about 100 percent of disposable income as compared to 39 percent in 1945.

We may look at this growth of debt in many ways. An increasing share of future income must certainly be committed to liquidation of past purchases. It is doubtful whether the nation can grow at the same rate in the future given the huge borrowing from the future which has already occurred. Capital consumption is greater than capital formation which would be another reason to suspect slower economic growth ahead. The credit growth clearly reflects the cost of many years of government intervention but as mentioned above, government debt is not the only problem. Private debt is growing much faster, fed not only by the monetary inputs of the Federal Reserve but also by the false sense of confidence stimulated by the government rhetoric. It has led the private sector to excessive financial leverage in search of greater growth because of a false notion that the risk of financial mistakes was materially reduced due to the government conquest of the business cycle. The costs of the high living will be paid in the years immediately ahead. The financial damage has all been recorded on the aggregate balance sheets of corporations, individuals and banks. A closer examination of these balance sheets will demonstrate this fact.

THE CORPORATE BALANCE SHEET

The corporate sector was partially smitten by the growth cult philosophy fostered by the New Economists. Corporations learned that adding debt to the balance sheet was one grand way to leverage growth. At midyear 1974 corporate debt totaled $1.4 trillion. Relating this to profits, the debt is about 15 times after-tax profits compared to a figure of eight times in 1955. It has been rising at a 12 percent rate since 1970, even faster than the 9 percent annual rate of the entire postwar period.

The cumulative damage of all these years of financial abuse is all recorded on corporate balance sheets and is quite easy to track. The initial impact of the excessive credit growth falls upon corporate liquidity, the ability to meet short-term obligations as they come due. Corporations have suffered a massive and steady decline in liquidity over the entire postwar period. Corporate debt has also become increasingly short-term in nature. Over 70 percent of the gain in corporate debt in 1974 was short-term in nature, for example. This, of course, puts corporations increasingly at the mercy of money markets which, in turn, are becoming more volatile and unpredictable.

The liquidity deterioration is not the entire story, however. Periodically, corporations have become concerned enough by low liquidity levels to move strongly into the long-term bond markets to fund the short-term liabilities. In recent years, the fears have been magnified in credit crunches that have been coming at about four-year intervals with each worse than the previous one. Each, in turn, has been followed by record new issue calendars in the bond market. Between credit crunches, unfortunately, the fears were forgotten and the financial deterioration was allowed to resume. The result of this long process has been a serious deterioration in the *entire* balance sheet which, when carried to extremes, leads the corporation not merely to illiquidity but to insolvency.

A few statistics will demonstrate the magnitude of the financial deterioration that has already taken place. Aggregate *debt ratios* of corporations have grown from around 25 percent in the 1950's to a figure approaching 50 percent currently. The ability of corporations to pay the interest charges on their past debt is also being seriously threatened. *Earnings coverage* figures (pre-tax income divided by interest costs) have deteriorated from a high over 20 in 1950 to around 2 currently. Another way to look at the same problem is *debt service* or the total amount of debt relative to total earnings. This ratio has worsened from about 7 percent in 1950 to over 40 percent today. In spite of the huge amount of short-term debt that has been funded, *cash & equivalents/current liabilities* (the best measure of liquidity) has declined from a peak exceeding $1 to a weak 18¢ at present.

Corporations have generally bought growth at the expense of safety and, while leverage is enjoyable for a while, it eventually begins to work the other way. Now, the entire corporate sector has become much more vulnerable to both the business and the credit cycle. The advanced state of financial leveraging has led to increased volatility in the entire system, higher risk levels and upward pressure upon interest rates. It represents a growing latent deflationary force that must be offset by increasingly larger doses of credit.

THE BANKING INDUSTRY

The banking system has been caught up in the same whirlwind of the performance cult and has suffered the same steady financial deterioration as the corporate sector. In fact, the entire philosophy of banking has shifted from asset management to liability management and the maximization of profits at any cost.

In earlier years, banks would take their deposits as given and structure their portfolio for optimum return commensurate with adequate liquidity and safety. When a loan was granted, a liquid asset would be sold to meet the demand. When the loan was repaid, the money would again be placed in liquid assets. Now, banks aggressively seek loans regardless of whether the funds are available. If loans are made, the funds are purchased in the form of Eurodollars, Federal funds or DC's. These funds are all very volatile and highly interest-sensitive. The *ratio of purchased funds to invested assets* has risen from a little over 20 percent in 1969 to around 35 percent in 1974.

Banking philosophy has also changed with regard to the nature of bank loans. Instead of concentrating on short-term, self-liquidating business loans, an increasing percentage of bank loans have longer maturities. Such innovations as term loans with variable interest rates have enabled corporations to borrow long-term funds without regard to the level of interest rates knowing that their interest costs will be "marked to the market." This, of course, dulls the natural corrective force of higher interest rates in a boom and also frustrates Federal Reserve monetary policy.

Thus, the new banking philosophy has brought a dangerous combination to the banking system. The sources of funds are short-term and highly volatile while loans have increasingly longer maturities and are substantially riskier. This combination of "borrowing short and lending long" goes against usual banking advice to clients.

Like corporations, banks must also stand ready to meet short-term obligations or sudden surprises such as large deposit withdrawals and surprising loan demand. With the increased risk described above, one would conclude that more liquidity is required. Yet, the reduction in banking liquidity over the postwar years is even more dramatic than corporate liquidity. The very liquid government securities portion of total assets, for example, has declined from over 50 percent over the postwar years to around 8 percent currently. All other traditional measures of banking liquidity have suffered similar deterioration. Banking liquidity is the *first* line of defense against sudden reversals of a normal business nature. As we have seen, in spite of increased risk and volatility in the system, this line of defense has been seriously weakened.

BANKING CAPITAL

The long-term capital of the banking system is meant to be the strong *second* line of defense, the reserve against abnormal losses such as might occur in a depression. This too has been seriously weakened. Equity in the banking system has declined by 50 percent since 1960. This, too, is part of the new banking philosophy which aims to please shareholders instead of protecting the safety of depositors. Like corporations, banks have made generous use of financial leverage to maximize earnings per share. Liabilities were about 11 times capital in 1960 but by 1974 had exceeded 30 for the very largest banks. Indeed, liquidity and solvency are constraints under today's banking priorities rather than objectives. Bankers excuse their low capital levels by saying that government programs such as the FDIC were established to protect against abnormal losses and that the lower levels of banking capital are therefore adequate. The problem is that the FDIC can only diversify against selected bank failures not against failure of the whole system. Its reserves are only a tiny fraction of total insured deposits.

In summary, we have a banking system which has tied up an uncomfortable portion of very short-term, volatile deposits in long risky loans to a corporate sector that is highly leveraged. In recent years banks have also expanded into many new areas through the bank holding company structure and moved heavily into overseas markets where financial conditions are even worse. While all this would call for higher levels of both liquidity and long-term capital, both are at historic and dangerously low levels.

A CURRENT APPRAISAL

Despite the chaotic conditions in recent financial markets, there is a certain orderly succession of events that has been taking place for many years and is easily predictable from the underlying trends of government intervention and credit creation.

The nation may now be finishing its third major credit crunch which was predictably worse than the previous two. New records were established for interest rates, volatility and other side effects of the underlying trends. Corporate and banking liquidity reached new lows in this cycle as in previous ones. The Federal Reserve, once again, has pulled up short in its fight against inflation and has begun the credit reflation that may prevent an uncontrollable credit liquidation but will set the stage for the next record inflation and credit crunch. Banking liquidity is beginning to improve on schedule but will not improve much, remaining close enough to record lows to set new records early in any expansion.

Meanwhile, corporations are scrambling to fund the record amounts of short-term debt they incurred. Liquidity indicators are reaching new record lows but may improve as the funding progresses. Financial indicators in the long-term section of the balance sheet will set new records in the months ahead, however.

"Since the public wants more government services but does not want higher taxes; inflation is the only solution."

CURRENT CORPORATE FINANCIAL CONDITION

There are many signs that corporations will have a much more difficult task in funding their short-term liabilities this time around. Long-term corporate debt sales were already a record in 1974 and will reach new record levels in 1975 if the market is willing. Internal generation of funds by corporations has declined from 75 percent in the early 1960's to less than 50 percent recently. With the sharp decline in cash flows in 1975, the internal source of funds will be even lower. The high rate of inflation in recent years has also seriously drained corporate assets through higher tax payments. With interest coverage slipping even further, the market is becoming very discriminating. Rating services, which have been very active in reducing ratings recently, are very concerned about the excessive use of short-term funds by corporations. The growing gap between high and low quality bond yields demonstrates the growing awareness of the marginal financial condition of many corporations.

There is also more attention being paid to off-balance sheet debt or "hidden debt." It has been estimated, for example, that corporations held close to $90 billion of leased equipment at the end of 1974. The accounting profession will eventually make capitalization of these leases manda-

tory for statements. The recent pension legislation has also called attention to the unfunded pension liabilities of many corporations. Over half of all corporations are underfunded to some extent and there are some NYSE companies whose pension liability is greater than the market value of the stock. If cost-of-living clauses for pension funds proliferate, it will be difficult for many corporations to catch up. Needless to say, the accountants will not overlook this problem for long. Lenders are probably already considering the problem in their rating of the securities.

Finally, with many stocks selling far below book value, it will be difficult to use equity sales to fund the short-term debt obligations. It is safe to say that it will be some time before many corporations will be able to get out of the banks. It is difficult to see banking liquidity improving much with this in mind.

THE CURRENT INTERNATIONAL BANKING SITUATION

The Arab oil problem with its accompanying financing problems has demonstrated the international nature of our current credit problems. Europe is suffering the same decline in corporate liquidity, corporations are having trouble selling equity, the Eurobond market has dried up as investors avoided long-term bonds and bankruptcies are higher.

The investor is now more aware of the Eurodollar market and its problems. The market has grown so rapidly that many safeguards were ignored. When Eurobonds dried up, Eurodollar banks filled the gap with medium-term bank credits in large volume. Consequently, the "borrow-short -lend-long" problem is even more pronounced among Eurodollar banks and it has been further aggravated by the flow of Arab oil funds. Developing countries borrowed heavily from Euro-dollar banks with many now approaching borrowing limits. These countries have been hurt terribly by oil prices and, more recently, by declining revenues from their raw material sales. Others are dependent on remittances from workers in Northern Europe who are the first to be laid off in the recession. It would not be difficult to imagine large scale loan defaults from these countries which would reverberate through the Eurodollar markets and affect our own domestic banking system. Small and medium-sized banks are coming under more pressure in Europe where there is no such thing as a FDIC. Underlying everything is tremendous volatility in currencies raising the risk of further bank failures.

The biggest problem caused by the high oil prices is that they obscure the real problem of government-oriented inflation. An oil price hike is not inflationary. Only government can raise the general level of prices. The higher oil price has lowered the real standard of living of oil-importing countries and the sooner this is realized, the better. Instead, countries are attempting to borrow from abroad to support the old consumption levels. They are, in effect, eating into their capital. This is no different from the credit process that was described earlier, i.e., consumers are attempting to live beyond their means through the use of credit. In this regard, to the extent that recycling of Arab funds is successful, the real adjustment to higher oil prices is delayed leading to a much greater cumulative adjustment that must eventually be made. If the Arab oil cartel is inflationary it is only because it leads governments to excessive credit creation to avoid difficult real adjustments. This is no different from the government inflating of past years to avoid serious recession because of the huge debt overhang. The Arabs only accelerated a problem that was already there.

"The new banking philosophy has brought a dangerous combination to the banking system."

In spite of all the obvious confusion in all financial markets and the economy in recent years, the easiest prediction of all is that it will all happen again and it will be worse the next time. Knowing that monetization of government deficits lies at the root of the problems, it requires little courage to make such a prediction. In the 10 fiscal years ending 1974, the cumulative governnment deficit totaled $105 billion. In fiscal 1975 and 1976, according to many estimates, we have a good chance of beating that record with eight years to spare. Given the low levels of both corporate and banking liquidity, there is little choice for the Federal Reserve but to strongly reflate the economy setting the stage for record levels of inflation later. It was estimated that the government would take 80 percent of the total funds raised in 1975. Not only must the huge Federal deficits be financed but off-budget agency debt financing will remain at fairly high levels. They took 15 percent of all new capital raised in the second half of 1974, for example. The NYSE has estimated that agency debt will climb by $103 billion over the next 10 years from roughly $90 billion in 1974 which is up from only $16 billion in 1964. Sale of municipal bonds will also set a new record in 1975 following a near record in 1974.

FUTURE CONDITIONS

With the mammoth Federal deficits in store, economic conditions will continue to worsen in the years immediately ahead without a doubt. Though the period may be punctuated by periods of economic recovery, seeming improvements in the inflation picture and even market rallies, the problems of recent years will reappear but each time will be worse. Real economic growth will become increasingly labored.

The steady retreat from capitalism will accelerate. The government will continue to loom most important in all economic decisions. The government's decisions will continue to be based more upon political realities rather than upon economic sense. The country is now at a very critical stage which will determine its course for many years to come. Unfortunately, it is quite obvious that we have already taken the wrong turn. The credit inflation that is implied in the announced government deficits guarantees the continuance and worsening of all the problems discussed here.

The most important point for the investor to keep in mind is that our underlying problem is progressive in nature. Increasing inputs of credit are needed to keep the huge debt overhang from being liquidated but each new input sets the stage for an even greater surge of inflation and progressive financial deterioration. As long as the rate of credit growth exceeds real production, the gap must be filled by even more credit.

We have already explained earlier how government intervention itself is progressive. There is also an inflationary bias to government stabilization policy. Whenever the government uses stimulation, it leans most heavily upon policies to increase consumption. When restraint is the objective, government policies usually serve to curb investment. The net effect is an inflationary bias. Constraints upon governments to avoid inflation are also quite small. Under floating exchange rates there is little incentive to hold spending down and with fiat currencies there is little incentive to avoid cheapening currencies. Monetary policy will also become progressively impotent. As the number of credit worthy borrowers declines and lenders become even less willing to lend long-term, any restraint attempted by the Federal Reserve will have to be abandoned quickly to avoid wholesale bankruptcies.

A SELF-ENFORCING CYCLE

At this late stage of financial deterioration, inflation will no longer provide a long period of euphoria before the costs begin to emerge. As inflation persists, the citizen becomes increasingly aware of the consequences of government credit intervention and learns how to protect himself. His growing inflation expectations add to the progressive nature of inflation. A

demonstration of this problem can be seen by examining the various periods of expansion of consumer prices and intervening contractions since 1960. During each period of expansion, the rate of growth in prices was successively higher. The rate of growth was also successively higher during each intervening respite from inflation. It is even more interesting when the rate of money growth relevant to each price move (the average rate of money growth for the two years prior) is compared to the expansion in prices. In the early years, prices did not rise nearly the amount indicated by money growth demonstrating that people were fooled into holding larger cash balances than warranted. But in the last three periods, rising prices were much more closely correlated to underlying money growth indicating that people are catching on to what is happening and the lag time is shortening. The next stage will show prices rising even faster than one would have predicted from the preceding monetary growth. This is the early stage of hyperinflation.

Finally, the progressive government intervention, the growing expectations and the myriad side effects of the credit trends all interact to form a strong self-enforcing spiral that eventually gets out of control. Inflation begets credit and financial deterioration which requires government credit intervention which accelerates inflation and expectations.

We hope that investors can now see why the problem of recent years should not be treated as simply an especially bad business cycle. They should now realize that our problems are the result of an underlying secular trend of government intervention paid for by steady financial deterioration. They know that the basic problem is not only continuing but worsening. They know that the side effects will continue to worsen progressively and that financial conditions now are at the point where they dominate the business cycle. Although it is difficult to time the ending of the secular trend or the form, an investor can quite accurately project the conditions that will be present until then and take steps to protect oneself. We have listed below some of the conditions that one may project by assuming a continuation of the underlying causal trends. Although the list is not all-inclusive, it is broad enough to describe the total investment environment over the next five years or more.

REAL ECONOMIC GROWTH

Future economic growth will continue sluggish at best for the balance of the decade. The recovery from the present recession will provide a model of future recoveries. All sectors will show labored improvement due primarily to credit problems.

The *consumer* is already over-extended. The *installment debt relative to disposable personal income* is also at record levels. *Delinquency rates* on installment debt are the highest of the entire postwar period with the worst for this cycle still ahead. *Personal bankruptcies* rose as much as 50 percent over the previous year in 1974 and will set new records in 1975. Even though delinquency rates are extremely high on *home mortgages,* savings and loans are instituting many novel schemes to make borrowing even easier with flexible payment mortgages and other techniques reminiscent of the 1920's. The ultimate impact will be that consumers will simply be allowed to dig their credit hole a little deeper. Although consumer financial indicators may improve cyclically, they will continue to deteriorate under the twin problems of sluggish growth and high rates of inflation.

The *farm sector* may also be in for trouble in the years ahead. Farm debt is now at record proportions. With farm prices probably on the decline for the next several years, farmers will be in for one of their recurring cost squeezes. A reinstatement of *farm support programs* is inevitable.

"There are many signs that corporations will have a much more difficult task in funding their short-term liabilities this time around."

The *construction industry* is a particularly ripe example of the massive distortions possible from government intervention. Through unsustainable subsidies and artificially low mortgage rates, the nation underwent a period of tremendous overbuilding relative to the financial wherewithal. Financial intermediaries have also been placed in vulnerable positions and participants in the industry have become overextended due to government rhetoric of huge building programs in the future. As a result, the very important building industry will not be able to supply support to the economy in the years immediately ahead. Total construction will remain sluggish for some years as this sector will lose out in the scramble for capital. The next swing up in the economy will be accompanied by a sharp advance in interest rates which will abort the building recovery. Moreover, the industry will suffer from a capital shortage for a number of years.

Although estimates abound for substantial *capital spending* through 1985, both the inclination and the capital will be insufficient to fulfill the projections. Though rhetoric is high, there seems to be little political will to reduce consumption in order to make additional capital available for investment spending.

Thus, it is difficult to see which major economic sector will lead the nation back to sustained real economic growth for some time. Among the additional projections below, will be seen more evidence supporting the thesis of lower economic growth.

GOVERNMENT POLICIES

The safest projections can be made regarding future government policies. The government will continue to inflate for it is inconceivable that it could find the political courage to finance the massive deficits ahead by taxation. The pressure will be great to repress the resulting price inflation, however. This means a proliferation of government controls.

Government controls will be much more repressive and extensive than in the past. The new set of controls will include capital allocation, foreign exchange controls, and wage/price controls. Because the controls will necessarily lead to substantial shortages in many areas, spot rationing and allocations will also be necessary.

Government bailouts of many corporations and banks will become common. This could stretch out the transition period but only at the expense of progressively higher rates of inflation.

State and local governments will have increasing financing problems as their tax base is impacted and investors will avoid long-term municipal bonds in greater numbers. The declining fortune of New York will cast a pall over all municipal issues. The only solution will be higher revenue-sharing payments from the Federal Government which will add to inflationary pressures.

The financial markets, of course, will continue to absorb the initial impact of continuing government intervention. The problems of recent years may simply be projected into the future with greater intensity. Private borrowers in the credit markets will be increasingly choked off by direct government financing and rising agency financing.

High interest rates will be a direct obstacle to economic growth. Interest rates will remain high for a number of reasons. Demand for credit will remain high despite high interest rates because external financing requirements of corporations will continue to grow. Government financing will continue to preempt the private borrowers. The rate of savings will remain low both by individuals and corporations as inflation expectations grow. The government will then be forced to create more money to satisfy private

borrowing needs. The high inflation rates that result will keep interest rates moving even higher.

The number of uncreditworthy borrowers will accelerate and lenders will gradually learn to avoid them. Banks will be forced to bail out many corporate borrowers to keep previous loans safe. Lenders will continue to move to the short end and toward higher quality borrowers. Marginal borrowers, on the other hand, will find it increasingly difficult to fund short-term liabilities and to improve their balance sheets. The problem will be compounded by lower cash flows. With continuing low stock valuations making equity sales difficult, the only reasonable conclusion is lower planned growth for many corporations and hence for the economy as a whole. Meanwhile, the banking system cannot come to the rescue alone for they have already used up most of their leveraging power and the quality of their loans is already quite low. Banks must strengthen their own capital positions. The Federal Reserve is the only answer but any addition to bank reserves will quickly show up in higher price inflation. It would also lead to serious trouble among thrift institutions and other intermediaries.

Two-tiered markets will continue to be the rule in bank CD's, commercial paper and long-term bonds. Volatility in all financial markets will continue to grow. Bank loan losses will reach new records in 1975.

THE STOCK MARKET

Future stock market rallies will be aborted quickly for a number of reasons. Any improvement in stock prices will be met with huge new equity offerings by liquidity-starved corporations and secondaries from frightened insiders. Short-term interest rates will rise sharply from the trough in the early stages of any economic recovery offering a safer haven for equity money. Growing government controls will continue to worry investors. The dollar will continue weak. Corporate failures will continue to be a problem. Dividends will not expand due to lower profits. Investors will continue their growing interest in *current* return in contrast to the pie-in-the-sky earnings projections previously bought by investors. There can be no major stock market move without a substantial rebuilding of liquidity. But government policies and competition for funds will make this impossible. The growing fears of foreign earnings for many of our corporations will be increasingly justified. Pressure upon price-earnings multiples will continue. The institutional investor, spurred by recent pension fund rulings, will continue to shift away from equities.

As we have indicated elsewhere, corporate liquidity will continue to decline, and profits will be difficult. Hindered by government controls, growth will be restricted and bankruptcies will rise. The financial squeeze on most corporations will continue with money for high risk venture situations simply not available. Industry concentration will rise as the strong will continue to get stronger under the conditions outlined here. This, of course, is one more example of the perverse results of government planning. External financing needs required for operating needs have remained very high in the current recession relative to recessions of the past. This condition can be expected to continue and worsen. It would take years to restructure the unhealthy balance sheets existing today even under the best of conditions.

Since financial conditions are quite similar all around the world, it is easy to make many projections here as well. The huge transfer of wealth required by the oil situation makes the situation worse. The massive debt creation to finance balance-of-payment deficits will heap huge new debt upon an already overloaded system.

"Government controls will be much more repressive and extensive than in the past."

International crises will continue to worsen as all Western governments continue to practice patchwork economics though they be temporarily moderated by cooperative financing schemes. Developing nations will be a great potential source of financial disorder as their financial condition becomes unbearable. The ultimate result of the worldwide financial problems will be growing nationalism and protectionism as all countries work to stimulate their exports at the expense of other countries. Inflationism will continue to be the chief government tool for avoiding the ultimate correction and the retreat from all currencies will continue.

CONCLUSION

We have attempted here to provide a broad long-term framework which investors may use to understand our recent problems and to predict the likely investment environment ahead. With the recent economic convulsions still fresh in mind, the obvious negative overtones presented here probably seem quite reasonable or even obvious to many. But stock market rallies have a way of dimming the memory. We have suffered increasingly serious credit dislocations three times in recent years, each being forgotten by most investors shortly afterward. As long as the basic problem remains, we are doomed to a repeat.

After all that has been written above one might ask is there any chance of an economic recovery and stock market rally? The answer is yes. The stock market has always reacted well to credit expansion in the early stages. Given the respite from inflation in 1975 due to previous monetary constraint and the lag relationship between the credit reflation and the resulting price inflation, the climate could be quite conducive to a rally. The very sharp inventory liquidation that was underway in early 1975 will also leave room for an inventory-rebuilding bounce later in the year. But each rally in recent years was more short-lived with fewer stocks participating and risk increasing. Given this risk, very stringent selection criteria should be used for any stocks purchased keeping in mind the steadily worsening side effects of the basic underlying trend.

The more important question is what follows the rally? The economic recovery will be disappointingly sluggish except for the inventory-rebuilding bounce. The Federal Reserve will consistently underestimate the greater transfusion of new credit that will be needed to start the economy moving again. As election year approaches, the pressure to increase money growth will accelerate. The rapid money growth of 1975 will begin to show up in a rekindling of price inflation about early summer in 1976. It is then that the pressure will grow for the reimposition of wage and price controls. This could put a temporary lid on prices but it would surely blow off by 1977 when prices will begin moving up sharply to set new records before an even worse credit-crunch and recession will follow probably in 1978.

Finally, investment planning should still consider at least the outside possibility that government control of the debt structure could be lost much sooner. The huge accumulated debt can only continue if it is serviced regularly and confidence remains reasonably high. There is little ahead to inspire a quantum leap in consumer confidence and default levels are already at record levels with the worst still ahead. Since the whole world is in the same condition, the trigger to a cumulative and self-enforcing credit liquidation can come from anywhere. In early 1975, we have already had a taste of what "pushing on the string" is like with the Federal Reserve's inability to raise money growth in the face of falling loan demand.

All panics in the past have been caused by credit expansion and the subsequent liquidation. The postwar credit expansion was the longest and most extensive in history with weak balance sheets now beginning to dominate the business cycle. Eventually, inflationism will not work. ◻

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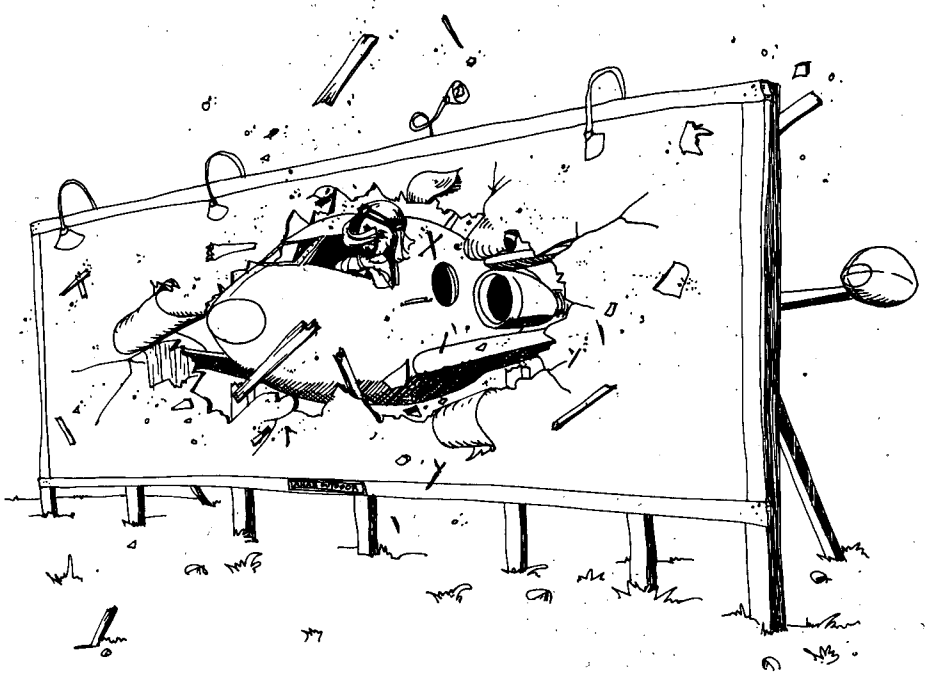
James E Sinclair

Most people, including many knowledgeable commentators, are failing to grasp the real economic and political significance of these problematical times. These commentators, while emphasizing the preservation and increase of one's assets, have consistently overlooked the more all-encompassing consideration of survival *per se.* Increasing your ability to adapt to an ever changing world has usually been an important prerequisite to success, but we may very well be entering a time when adaptability will be an *absolute* prerequisite, perhaps even to personal survival. Hopefully the following comments will help the reader achieve a better perspective on some of the more important economic problems now facing the world, and will be an important adjunct to laying future personal and financial plans.

Two of the main causative factors for the growing number of problems we face are the ongoing inflationary debasement of currencies, and simultaneously, the erosion of the private sector by burgeoning bureaucracies throughout the Western World. An erosion, not only of an increasing portion of the free markets involved, but also of individuals and their capacity for self reliance.



the mad, mad, mad, mad world of 1975

Of course, when viewing this apparent Gordian knot of problems inflation surfaces as the most acute problem at this time—the oil crisis has shown us just how serious this inflationary path can be. The rise in the price of oil did not *cause* the inflation as many government officials and others would have you believe. No, the Arabs did not inflate our currencies, but rather the Central Banks and others in direct control of the world's money supply did, and coupled it with their lack of restraint and discipline in administering the same. The Arabs acted in self defense with their price increases for crude oil—a defense against eroding currencies.

There is no doubt that "democracies" as they are presently structured, and politics as presently practiced, are not going to be effective in fighting inflation. Inflation is now literally built into the system. Governments are obviously intent on placat-

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ing their constituencies (i.e., maintaining their power structures) so it seems highly unlikely that the degree of governmentally imposed austerity that is necessary to systematically wring out the present, long-term inflationary bias will be found. The basic truism remains: inflation cannot be overcome without politically unpopular recessions and a basic, continuing change in the management of monetary policy.

COMING RADICALISM

It is also axiomatic that hard currency and freedom go hand in hand; soft money policies and the ensuing inflations have regularly opened the door to unwelcome political visitors. Communism had a field day in 1974—Italy, Portugal, and in all probability, Great Britain (via trade unionism) will also come under its influence. Economic upheaval is the greatest salesman of radicalism—remember that the Nazis came to power under such circumstances! In a way the Arab world is now demanding tribute of the Western industrialized nations as did France of Germany after the First World War, and *that* debt burden contributed heavily to that historic German inflation. The question that should be raised today is whether or not we will be attempting to pay off *our* international debts with increasingly inflated currencies!

Paper (fiat) currencies are failing in their attempt to function as money. A classic indicator of this is the fact that today's markets are moving in hyperactive spasms rather than in the more normalized bull and bear patterns of the past. Volatility is the order of the day as more and more seasoned traders "stand aside."

And so it is in this inflationary climate that today's investor must make his decisions—indeed, must survive.

In an overall sense, two of the more important concerns today are the growing accumulation of the world's free monetary reserves in the coffers of the OPEC nations, and what appears to be an ever-increasing role for gold in the world's monetary system. These concerns are intimately linked and warrant examination to help impart an important overall perspective to your investment decisions—a perspective that will help separate you from the crowd.

GOLD AND ITALY

Last year it became obvious to the world community that the government of Italy was in serious financial straits. Italy had debts of over $10.5 billion in the Eurocurrency market and a persistent payments deficit of an additional $500-$700 million *a month.* Italy had reached the point, through pernicious monetary mismanagement, where it could no longer sustain itself as a viable financial entity without major assistance.

In response to Italy's problem the "Group of 20" (the major industrialized nations) of the International Monetary Fund met in Washington and authorized Italy to use her gold reserves as collateral for a multi-billion dollar loan from Germany. The German-Italian agreement valued Italy's gold at approximately $150 an ounce, a figure which seems to have set a floor price in the free market as well.

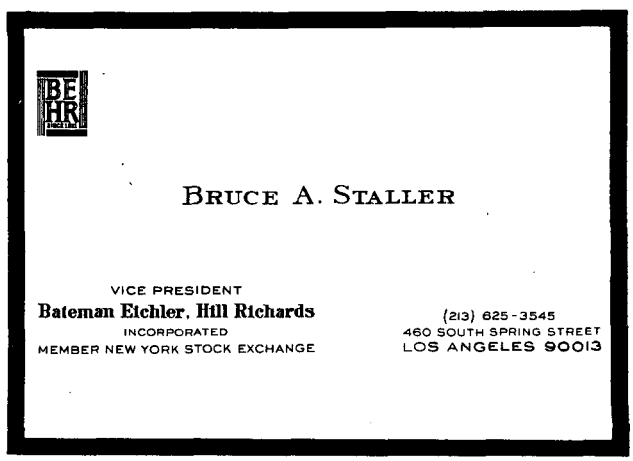
Interestingly enough, it was Arthur Burns of the Federal Reserve Board who suggested that gold be used as collateral in the loan agreement. This was the first time since 1934 that the government of the United States clearly admitted to an increasing role for gold, if even on a supposedly interim basis.

There is a strong likelihood that this agreement will be the harbinger of a new monetary system that will use gold in a more complex and important fashion. The German-Italian loan agreement was the Rosetta stone of gold's recent history: with this agreement the metal's mystique was broken and its practical monetary uses demonstrated to the world once again.

With this trend toward the mobilization of official gold reserves, there has been some fear on the part of investors that part of these holdings would be sold on the free market to satisfy governmental needs for foreign exchange for deteriorating balance of payments. However, it seems most logical that official gold reserves will be collateralized or exchanged between Central Banks rather than sold to the free market. It would be illogical for governments to sell an asset that can be used as collateral while continuing to grow in value. Fears that gold will be sold into the free market in any significant quantities are unfounded.

TOO MUCH MONEY

Meanwhile, the large build-up of the free world's monetary reserves in the Mideast creates many serious problems. The World Bank has publicly stated their opinion that by 1980 the OPEC nations' reserves will increase to $650 billion, and by 1985 to $1,200 billion. Hopes that the Arabs will use the Petrodollars to buy up assets in this country only place us, by historical perspective, at the crest of another great inflation. It was the French who purchased the German means of production during the German inflation of the 1920's, and the Americans and Germans who purchased the productive assets of



Brazil during the 1960's. In addition, there is serious doubt as to whether or not most Western governments would allow the Arabs to buy up significant positions in our industries and other investment outlets, or indeed, if the Arabs trust the West sufficiently to consider it.

Recycling these funds back to the debtor nations via loans is in fact a restructuring. The funds leave the country in the form of a national asset and return as a liability. Increased liabilities do *not* lead to national solvency! Apparantly neither the commercial banking systems of Europe nor those of the U.S. can cope with the recycling demands of Arab funds. In the words of Arthur Burns the flow of Petrodollars had become "unmanagable."

"When the crutches are finally pulled from under the complacent investor, the run to gold will be of a magnitude I dare not speculate on."

At present the Arabs are purchasing large quantities of U.S. Treasury Bills with their new-found liquidity, but this of course is a potentially volatile situation and not the solution. Many banks are taking these short term funds and making long term commitments—a sure prescription for insolvency.

When considering the disposal of these funds the question of gold arises, both as a means of paying for oil, and as an investment medium for Petrodollars. It does not seem likely that the Arabs will take gold in payment for oil at what they probably consider to be excessively high valuations for the metal at this time. Furthermore their lack of gold as a percentage of their total reserves tends to make them take a negative public position towards gold. However, they would undoubtedly like to begin accumulating the metal should the price begin to weaken noticeably from its present levels. We may very well someday see an Arab currency backed by gold.

Additional speculation about the Petrodollar problem includes the possibility that the OPEC nations may form their own banks to invest their new found wealth. There is also a feeling held by some that the price of oil will ultimately be linked to a composite price index of 20 world commodities, and rumors to this effect recently intensified. Of course this type of agreement would at least (in part) defeat attempts to purposefully depreciate currencies to obtain "cheap" oil from the OPEC nations.

CLUTCH PERIOD

To give you a better perspective, one might say that we are now passing through a "Clutch Period of Human History"—a period when the world is changing gears. At present we are feeling the effects of two important economic cycles: the 40 month and the 9½ year business cycles. Because of its shorter duration (from peak to trough) the 40 month cycle is the more noticeable of the two and is now headed toward its deflationary bottom. On the other hand, the 9½ year cycle is just beginning to peak, and this longer cycle is now reflecting the impact of capital expenditures made as many as five years ago. The discrepancy between these two cycles helps explain the current paradox of an economy where some industries are depressed while others remain at full capacity.

In mid-1975 the 40 month cycle is expected to turn bullish and its impact on the markets will make many investors forget fundamental, underlying instabilities. By 1977-78 an unusual occurrence will take place: both cycles will turn down *simultaneously.* Then and only then, in my opinion, will a true deflation occur. Expect the 1977-78 period to be the hangover after the party.

Explained differently, we are now in a period of "stagflation" with currently a heavier impact of the "stag" expected into the middle of 1975. Then we will begin seeing more of the "flation" aspect of the stagflation as the impact of various politically popular reflationary devices reaches economies here and abroad. Of course the ultimate consequence of this continued, politically motivated stimulation is worldwide depression.

As discussed earlier we are now witnessing the beginnings of some serious breakdowns in society as we know it. The situation makes it incumbent that one concentrate on personal survival as well as asset growth.

Don't expect that your gold holdings will take care of you entirely. When the crutches are finally pulled from under the complacent investor, the run to gold will be of a magnitude I dare not speculate on. In the interim you can expect wide swings in its price, especially when the public would seem to least expect it.

The spectre of serious food shortages also looms in the future, and the world food problem could very well be our most pressing problem in the 1980's. If it is, it will be a time when gold will buy a great many things, *but also when food will buy a great deal of gold!*

The extreme complexity of today's world demands that systems operate efficiently. Few can imagine what life will be like when the systems of distribution, transportation, and law fail to function. Clothes, food, fuel, lodging, and transportation all need to be considered. Better postpone the new Porsche in favor of a four-wheel drive vehicle with a 42-gallon gas tank. A farm in the country may be good for more than just the kids! ◻

UNDER MANY FLAGS

A ROUTE TO SURVIVAL

Dr Harry D Schultz

The safest way to survive in today's hellish climate of monetary chaos, economic decline, stock market erosion, increasing social breakdown, violence on an ever-escalating scale, disappearing currency values, ever-increasing inflation, etc., is to "internationalise" oneself.

This calls for maintaining three *flags.*

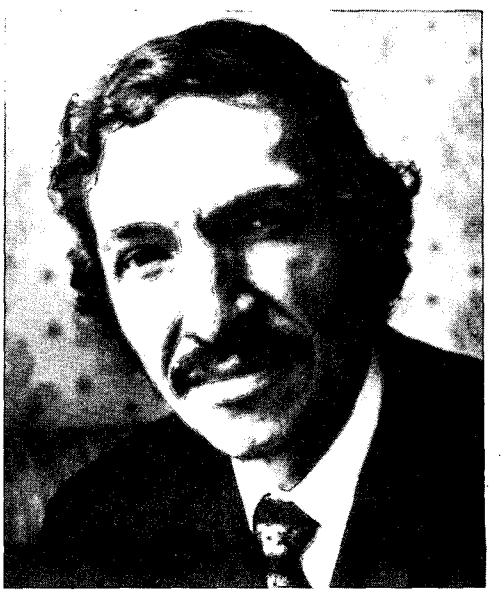
First, you have a country of domicile, That means where you were born. Let us assume this might be the U.S.A. That's flag number one.

Second you have your country of residence. To many readers of this magazine this has been the U.S.A. also, but for an increasing number of U.S.-born persons the country of residence has been changed. Americans leaving U.S. shores have mounted dramatically in recent years. There are "American colonies" in every major city of the world. Such major cities as London and Paris and Rome each boast something in the vicinity of 75,000 Americans. But this is only a rough estimate—in fact, it could be considerably more. So, for many individuals, flag number two is, let us say, a European flag.

Dr. Harry D. Schultz is president of the International Investment Letter Association, and publisher of the International Harry Schultz Letter. *He is the author of a number of books, including* Panics and Crashes and How You Can Make Money Out of Them, *and* What The Prudent Investor Should Know About Switzerland and Other Foreign Money Havens. *He has co-authored with James Sinclair, the book* How the Experts Buy and Sell Gold, Currency and Coin, *to be published shortly by Arlington House.*

Third is your flag of passport or citizenship. This relates to (in most cases) those people who have *changed* their citizenship from that of the country in which they were born.

Regarding the three flags above, let me point out that one never, *ever lives* (if one is a truly international person) in the country that one is a *citizen* of, and therefore one pays no taxes in that country. Then for those who have left their country of birth and likewise changed citizenship, they also pay no taxes in their *domicile* country. This means that the only tax exposure one faces is in the country of *residence,* and in most cases this tax will be based simply on money brought into that country each year rather than on money earned on a world-wide basis.



There is not space here to explain the exceptions and qualifications and special arrangements necessary to facilitate this tax arrangement, but take my word for it, it can be done as I have outlined. Under this three flag arrangement one is therefore paying virtually *no tax* except a token tax in one's residence country. The jet set, of course, go one step farther and only remain in their country of residence about 6 months each year (or live 6 months in two or three different parts of the world alternately). So in their case they pay *no* tax ever, *ever!* Thus the richest people in the world live a tax free existence—and this helps them *stay* rich, obviously.

"Anyone without a Swiss bank account at this stage of the monetary collapse does not want to get or stay rich very hard."

As you can see, with this three flag "holy trinity" one has the best of all tax and protection worlds on this very muddled and nearly totally socialistic globe. The holy trinity is—one might say—your way of fighting back, or at least of providing some armour-plating.

EXPATRIATES

It may amaze many readers of this magazine to learn that thousands of Americans have changed their citizenship in recent years. This means that for Americans changing countries (i.e., moving) is not enough, since the U.S.A. (alone in the world) continues to tax its citizens after they have left the country—a citizenship change is necessary also. Furthermore—and in fact an even greater incentive for changing citizenship than escaping taxes—there has been the desire to get out from under Big Brother, tax audits, the 1040 form; in short, to escape the *intimidation* which has become as American as apple pie once was.

Another major reason for Americans giving up their U.S. citizenship has been their disagreement with U.S. political policy, "the folks who brought you Vietnam," the Watergate episode and what it represents about the changed fibre of the country, the increased violence, the drug scene, the moral degeneration, the monetary crimes committed in Washington (e.g., the watering of U.S. currency)—and the dismal prospects for the future which seem to include more of the same, if not worse.

(Before leaving this subject of new citizenship and passports let me just comment that—as a social observation on the times—a steadily increasing number of people who come to me for private consultations ask me to help them in the acquisition of a new citizenship. I do *not* seek this kind of business and I find it very burdensome, but I seem to be the only one around who is able to give genuine guidance and assistance in this esoteric area. Of course anyone can get a new citizenship simply by residing in a given country for approximately five years. But most people want to short circuit the red tape, to cut the time dramatically.)

COSMOPOLITAN

In addition to the need for you to be legally international in order to survive, let me also point out the necessity of reading publications that are not from your own country in order for you to get a broader view of the world. Americans, for example, who read only U.S. newspapers and books and advisory letters and magazines have a very, very *provincial* view of the world. U.S. news magazines may well discuss the entire world in their pages but their reporters are still American, and even if they write from Bonn and Paris and Tokyo they see the world through star spangled glasses and carry their prejudices with them into every nook and cranny of the globe. The average American news magazine is about as international as Salt Lake City, Utah.

Let me add also that the *best* newspapers in the world are *not* published in the U.S.A. And among those U.S. newspapers, rare though they be, which do give wide international coverage, their prejudices and bias show rather strongly in the slant of both the story and its headline.

A writer needs to "de-nationalise" himself in order to write objectively and therefore to be of use to his readers. I have struggled very hard to achieve this de-nationalisation myself and like to think I have achieved it. I have lived a good many years in a good many countries and am as much at home in Copenhagen or Sydney as I am in Los Angeles or Johannesburg or Paris.

Travel alone does *not* achieve this de-nationalisation. You have to adopt a citizen-of-the-world attitude and drop all semblance of so-called patriotism in order to view the world with true objectivity. Therefore I am suggesting the next flag you add to your collection is the flag of the United Nations.

I am *not* praising the U.N. Far from it! But it symbolises, *for the purpose of this article alone,* an attitude that I recommend to you—that of not associating yourself with a piece of real estate, i.e., with any country. It makes for better investment decisions, I assure you. And better political ones too. Plus, it improves your chances for physical survival as well.

INVESTMENT FLAGS

Now let us launch forth into the flags you should be flying for your investments. I assume most of the readers of this magazine are sufficiently well read and

sophisticated to know that the days are long gone when one could keep all of one's assets in one's own country and invest only in, for example, the New York Stock Exchange. Nor can one keep only U.S. dollars any more. Times are tougher now—it takes more work, study, and research to plan a safe dispersal of one's assets in order to achieve maintenance of buying power.

So the next flag you should acquire is the Red Cross flag of Switzerland. I refer, of course, to acquiring a Swiss bank account. Anyone without one at this stage of the monetary collapse does not want to get or stay rich very hard. Swiss banks provide "supermarket" facilities for the distribution of assets and the spreading of risk. But in these days of ricocheting bank failures one should not rely even on Swiss banks alone. Therefore I suggest your next flag be a Dutch and/or German flag. Holland claims to have excellent bank secrecy and certainly their facilities are quite good. For maximum protection one should use at least 3 or 4 countries for asset dispersal which involves 3 - 5 separate banks. It is inconvenient and a nuisance and not terribly efficient. But it is the stuff of which survival is made.

Also, one should diversify one's assets into a number of currencies. In fact, currency diversification has become so essential that I now include a special "Currency Corner" in each issue of the *International Harry Schultz Letter* (published every 3 weeks. P.O. Box 1161, Basel, Switzerland. $225 a year).

At present I recommend that you hold 50 percent of your investable assets in currencies, but this percentage may very well change radically in the months ahead, if the monetary picture changes shape. An example of how investment percentages change is gold: in my investment letter the percentage recommended has altered quite radically over the years from as low as 10 percent to as high as—I believe—65 percent. It is now (in early February) at about 25 percent, but at some point in 1975 it will be increased dramatically. I suppose I should deem it my good fortune that people must subscribe to my newsletter in order to learn when to shift in and out of such investments (including New York industrial shares), but I would gladly trade this dependency for a more stable economy and society!

BENEFITS

I hope what I've said has given you an insight into the possibilities and benefits from becoming a more international person. There is, by the way, a spin-off benefit from this that goes far beyond that of financial and physical survival. That is the mind expanding aspect. In becoming global, you will simultaneously increase your understanding, widen your horizons, learn more about people around the world, become at home in a variety of atmospheres, and enrich your life and understanding immeasurably. Your awareness (perhaps the most important aspect of all) will escalate monumentally. Good luck! ◻

What comes after Homestake?

Compile a list of South African gold stocks and it'll go something like this . . . Western Deep, F.S. Geduld, President Brand, etc. A Canadian list might read . . . Dome, Campbell Red Lake, Agnico Eagle, etc. Now try and compile a list of U.S. gold mining stocks . . . what do you get . . . Homestake . . . and that's it.

Or is it?

I'm a stockbroker. I believe that with higher Gold prices something is going to happen in U.S. gold mining. The fact is, it's already happening. You just have to look in the right place.

I actively follow a handful of low priced, or so-called, *"penny gold stocks"*. I think it's possible that some of these companies will someday develop into operating American gold mines, and take their rightful place on the list along with Homestake.

Each week, I publish a quote sheet which covers the penny gold & silver stocks we're following. Any pertinent comments regarding the stocks are included. The cost is $8.00 per year.

With your subscription, I'll send along reports on what I think are the two best gold speculations in the U.S.

Sam Parks
Pennaluna & Co.
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Seattle, Wa. 98101
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Sam,
Please send me your weekly quote sheets for the next year. My check for $8.00 is enclosed.

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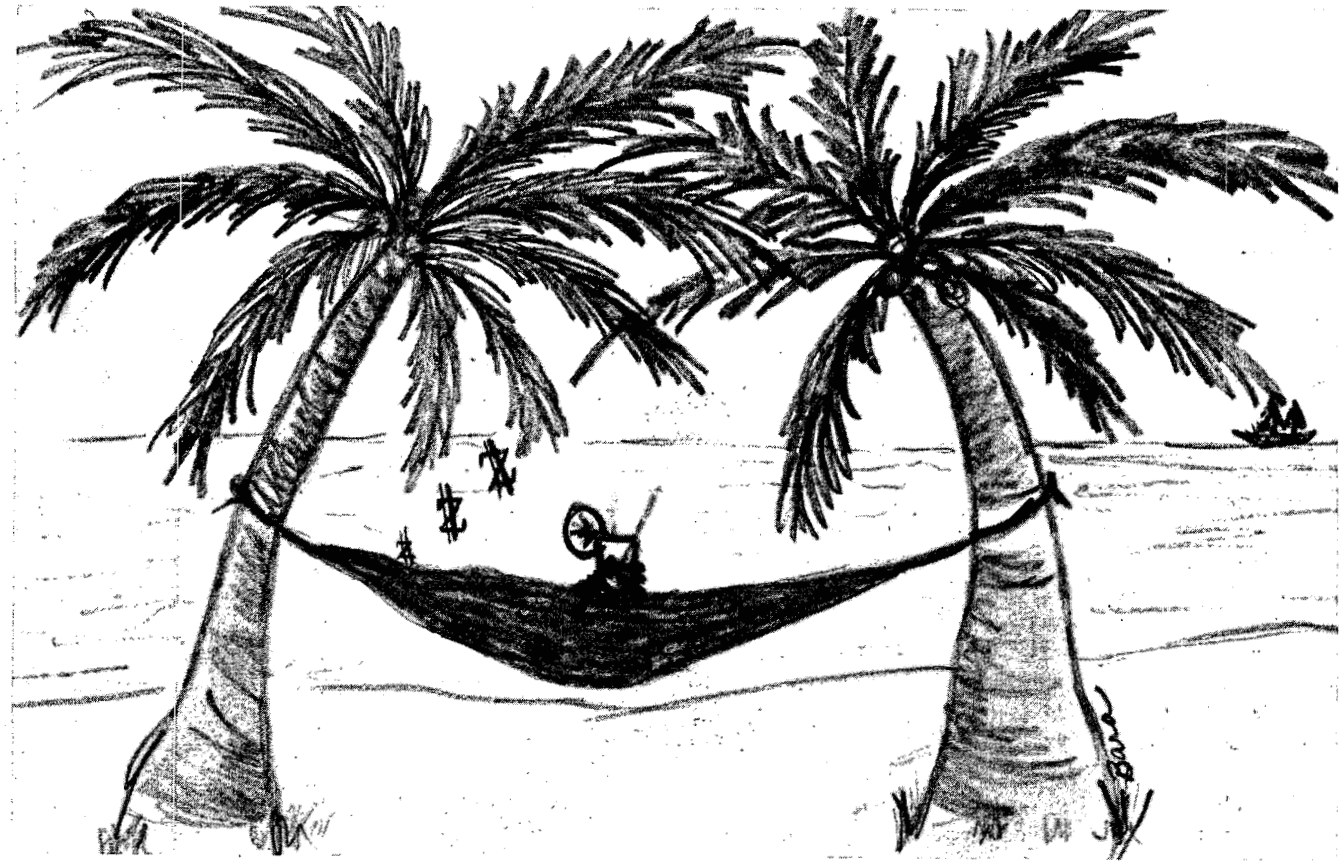


All About Tax Havens

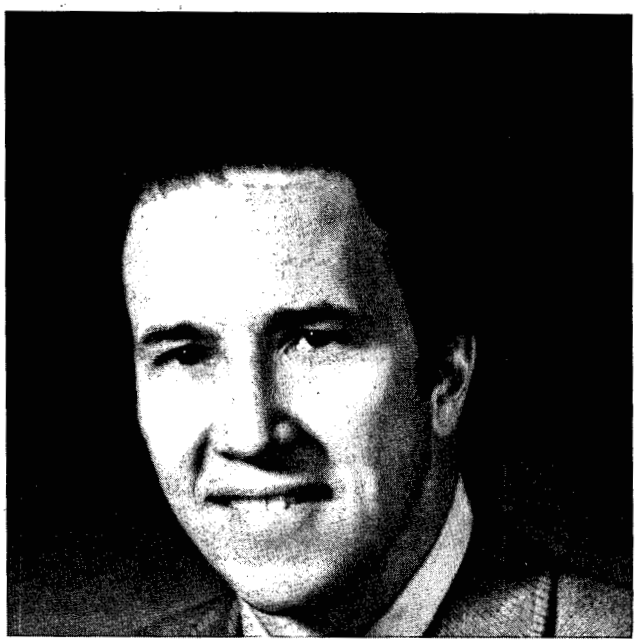
Wainright Dawson

This past year has witnessed a very healthy explosion in the publication of Tax Haven literature. Suffice it to say, the free market is performing admirably to satisfy human needs.

No sooner had the bite of recession begun to firmly sink its teeth into the pocket-books of the world, than the creative types in international law began to come up with answers—lots of them. Particularly significant was the introduction of a new monthly publication, *Tax Haven Review.* It is published in Copenhagen by Mr. Noel Fox who is also the publisher of *Portfolio and Fund Guide International* magazine.

Tax Haven Review (THR) was an instant success, issuing timely and well presented material in a very attractive format of 16 pages per issue.

Last year, my article in REASON's Special Financial Issue was concerned with a broad analysis of the world's tax havens. This year, because the field of tax haven information has grown so quickly, it should be more helpful to acquaint readers of REASON with the fine material available to them. THR is mentioned specifically here because that publication has developed an extensive service for the purchase of tax haven literature.



Wainright Dawson, Jr., National Director of United Republicans of America, is a consultant in Washington D.C. who specializes in "tactical finance." He is the president of Intersolve, Inc., a financial advertising and publishing firm.

LITERATURE

The following are brief reviews of new and updated tax haven books, manuals, etc. These reviews have appeared this year in previous issues of THR, and all publications may be ordered from: The Book Center, THR, Kompagnistr. 6, DK-1208 Copenhagen K, Denmark.

FOREIGN TAX HAVENS

Marshall J. Langer, Program Chairman and Edited by Practicing Law Institute (PLI) Managing Editor Selma Arnold

After discussing key factors in choosing any tax haven, the panelist-authors concentrate on detailed analyses of more than a dozen particular havens, their advantages and disadvantages. In addition to examining nations of the Caribbean, in and about Europe and in the Pacific, they consider such specialized forms of doing business as captive foreign insurance companies and foreign flag shipping. Articles, bibliographies, maps, charts and other materials are included in the extensive appendices.

Price 1973, 439 Pages, $50
(plus postage outside U.S.A.)

FOREIGN TAX HAVENS – 2d

Course Handbook

The Course Handbook describes how to structure the tax haven entity in accordance with the law and practice of the foreign situs, dealing in detail with a Cayman Islands trust, Netherlands Antilles company and Panama corporation.

Price 1973, 359 Pages (softcover), $20
(plus postage outside U.S.A.)

GRUNDY'S TAX HAVENS

Third Edition 1974 by Milton Grundy, Barrister at Law.

A comprehensive and authoritative survey of the world's tax shelters, will be published in Britain by Bodley Head Ltd. and HLF (Publishers) Ltd. The book contains descriptions of each of the major havens provided by a trust corporation or other financial institution established in the territory. The third edition also includes a chapter by Grundy describing important features of the "quasi havens"—Barbados, Monaco, the Netherlands, the Republic of Ireland and the United Kingdom —which are being used for a limited range of tax haven-type transactions.

Price: $23.00 (including 2nd class airmail postage)

INTERNATIONAL TAXATION 1974

Edited by Professor G.S.A. Wheatcroft

Based on the papers submitted to the 1974 International Tax Conference, Singapore, this publication, available in two volumes, will be an invaluable reference work for tax consultants and accounts.

Price: $70.50

INTERNATIONAL TAX PLANNING – CAYMAN ISLANDS 1974 TAX SEMINAR TRANSCRIPT

Three days of speeches and panel discussions including papers by Burton W. Kantor, Grant L. Jones, Donald Van Koughnet, Alexander McKie, Sidney R. Pine, David S. Brown, Roy A. Povell, Charles W. Adams, Douglas Wolf, Milton Grundy, Francis E. La brie, Dr. Barry Spitz.

Price $22.50 including postage from Grand Cayman.

INTERNATIONAL TAX STRATEGY SERVICE

Edited by Michael Edwardes-Ker

Authoritative, frank, and kept completely up-to-date, this Service (675 pages) focuses entirely on practical opportunities and techniques for maximizing post-tax profits. Tax strategy in all imaginable situations is analyzed in a clear business-like way: overseas trading activities, anti-avoidance measures (including sham transactions), intercompany pricing, international financing and financial centres, technology exploitation, leasing, captive insurance, holding and headquarter companies, acquisitions, mergers, plant locations, real estate, shipping, offshore funds, exchange rate fluctuations, political risks, executive remuneration, tax strategy for individuals and families, banking secrecy, etc. Eight chapters are devoted exclusively to tax havens. Many further topics, including exchange controls, future tax trends, North Sea Oil, and practical material on trusts, off-shore companies, etc. in course of preparation. Comprehensively cross-indexed.

Now supplemented and up-dated *monthly,* this Service aims to give you all the advice and information you need to perfect your international tax strategy.

Price $300—plus (airmail) postage $2 (UK), $10 (Europe), $15 (elsewhere).

TAX HAVEN ENCYCLOPEDIA

Edited by Barry Spitz

This loose leaf work enables the practitioner to assess the relative advantages of various tax havens thus facilitating the selection of the most appropriate tax haven for his particular purpose. Special chapters consider the use of tax havens by taxpayers of the United Kingdom, the United States and France. 17 tax havens will be dealt with by experts of the area under analysis. Subsequent noter-up pages and replacement sections will follow at an additional charge.

Price (basic): $58.75 approx., plus supplements
Anticipated publishing date April 1975

INTERNATIONAL TAX HAVEN & INVESTORS DIRECTORY

Edited by Noel Fox, Tax Haven Review

The International Investors Directory, already an indispensable guide to Financial Management Services worldwide, has been expanded to include comprehensive information about the

THE RENE BAXTER LETTER DELIVERS THE GOODS

RBL analyzes today's political and financial news in terms of what those events mean to your personal and business security. RBL advice is not hedged with ifs, ands, buts or maybes. Instead, RBL offers specific investment recommendations and "how-to" information designed to help you make, and save, money.

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A year ago January I made 32 predictions for 1974, including areas of greatest strength and weakness in our economy. 27 were right on, for a batting average of .884. Of course I can't guarantee I'll do as well with this year's 32 predictions; but if I do, my clients and subscribers will again be very happy with me."

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Buy and sell signals	How to get out of debt
South African golds	Tax straddles
Penny gold stocks	How to get a job
Treasury bills	Storage foods
Swiss bank accounts	Swiss Franc Safety

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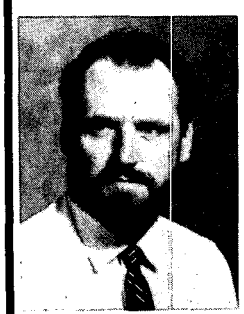

Rene Baxter is a free market economist and a registered investment advisor. He edits and publishes the Rene Baxter Letter and the Trader's Tek Letter. He also does personal and business financial advising. He is a regular speaker at monetary conferences and seminars. His forthcoming book, FINANCIAL SURVIVAL IN THE SEVENTIES, is scheduled for release in 1975.

He is a member of the International Investment Letter Association, a life members of the Committe for Monetary Research and Education, and of the American Numismatic Assoc.

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TAX HAVENS AND MEASURES AGAINST TAX EVASION AND AVOIDANCE IN THE EEC

Edited by J. F. Avery Jones

The papers given before the Associated Business Programmes conference in Amsterdam last November on antitax avoidance measures in the EEC have now been published in book form. It contains chapters on France, Germany, the Netherlands, the United Kingdom, Switzerland, Luxembourg and the Channel Islands.

Price: $16.50 (U.K.)

TAX HAVENS OF THE WORLD

By Walter H. Diamond and D. B. Diamond

The authors survey not less than twenty-seven recognized and established tax havens. Although the United States government passed a revenue act in 1962 designed to curtail the use of tax havens by Americans, the passage of this legislation has, in effect, encouraged the use of tax havens by various individuals in different ways.

Price: $28.50

Also of special interest to REASON subscribers, will be the THR Readers Service. This service will furnish you with the names and addresses of lawyers, bankers, auditors and tax advisors in international tax havens. You simply indicate the haven(s) which interest you and, if possible, give some idea of the type of professional assistance you require.

To subscribe to THR, write to the aforementioned address. An annual subscription is $90, and a sample issue will be sent to readers of REASON, on request.

OTHER SOURCES

Two—in effect, three—additional areas of tax haven information should also be noted.

The first is the *Tax Newsletter* of the *Financial Times* of London. Those who are familiar with this newspaper will know of the detailed expertise it brings to its subsidiary publications. But, as the *Financial Times* is not readily available in the U.S. unless you seek it out, it should be stated that it is probably the finest newspaper in the world.

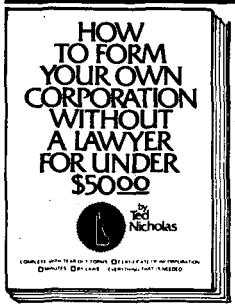
Not only does it report on economic/financial news from all over the world, it keeps a constant questioning and investigative attitude toward the economic policies of all governments, including their own. With almost weekly regularity, this newspaper publishes multi-page studies and analyses of world financial centers, tax havens and newsworthy countries.

(continued on p. 102)

As advertised in the Wall Street Journal, Barrons, National Observer, New York Times, Fortune, Business Week, Nations Business, etc.

How to form your own corporation without a lawyer for under $50.00

By Ted Nicholas



You may have considered incorporating. I'm sure you want to accomplish this in the most economical way. You may already be in business and are looking for ways to save tax dollars or limit personal liability.

You can benefit from this report if you are planning a one man business if you are associated with a partner or are the owner of a large company.

This exciting report shows you step by step how you can accomplish this for less than $50.00.

It contains tear-out forms for everything that is needed! This includes minutes, bylaws, and the actual certificate of incorporation!

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Some of the features of the 8½ x 11, 30,000 word, 103 page report:

How you can incorporate without any capital requirement with zero capital.

The many personal tax benefits of incorporating.

How a corporation limits the personal liability for the owner(s) of a business, to the investment in the corporation. (Except for taxes)

How to actually form a corporation step by step. Included are instructions on completing the forms.

How to own and operate a corporation anonymously if desired. This assures maximum privacy.

How to form a non profit corporation. How to utilize tax "gimmicks" to personal advantage.

Find out why lawyers charge huge fees for incorporating services even when often times they prefer not to.

Learn how and why you can legally incorporate without the services of a lawyer. There is a fallacy in that most people feel it is necessary to have a lawyer to incorporate.

How to form an "open" or "close" corporation and the difference between them. Report contains tear out forms.

Sub Chapter S Corporations. What they are. How to set one up. How to operate a business as a corporation, yet be taxed on individual tax rates if more advantageous.

Learn about the many dangers and hazards of not incorporating partnerships and proprietorships.

What a Registered Agent is. How assistance is provided to individuals who incorporate. The most economical company to use. A complete section on this.

How to cut out all fees of the "middle man" normally involved in forming a corporation.

How a *"professional"* can benefit from incorporating.

How to save from $300 to over $1,000 in the formation of the corporation alone!

What a *"foreign"* **corporation is.** A State by State list of the filing fees involved in registering a "foreign" corporation.

Learn how a corporation can sell its stock to raise capital at any time.

How a single individual can be President, Secretary and Treasurer. There is no need to have anyone involved except a single stockholder although, of course, as many as desired can be included.

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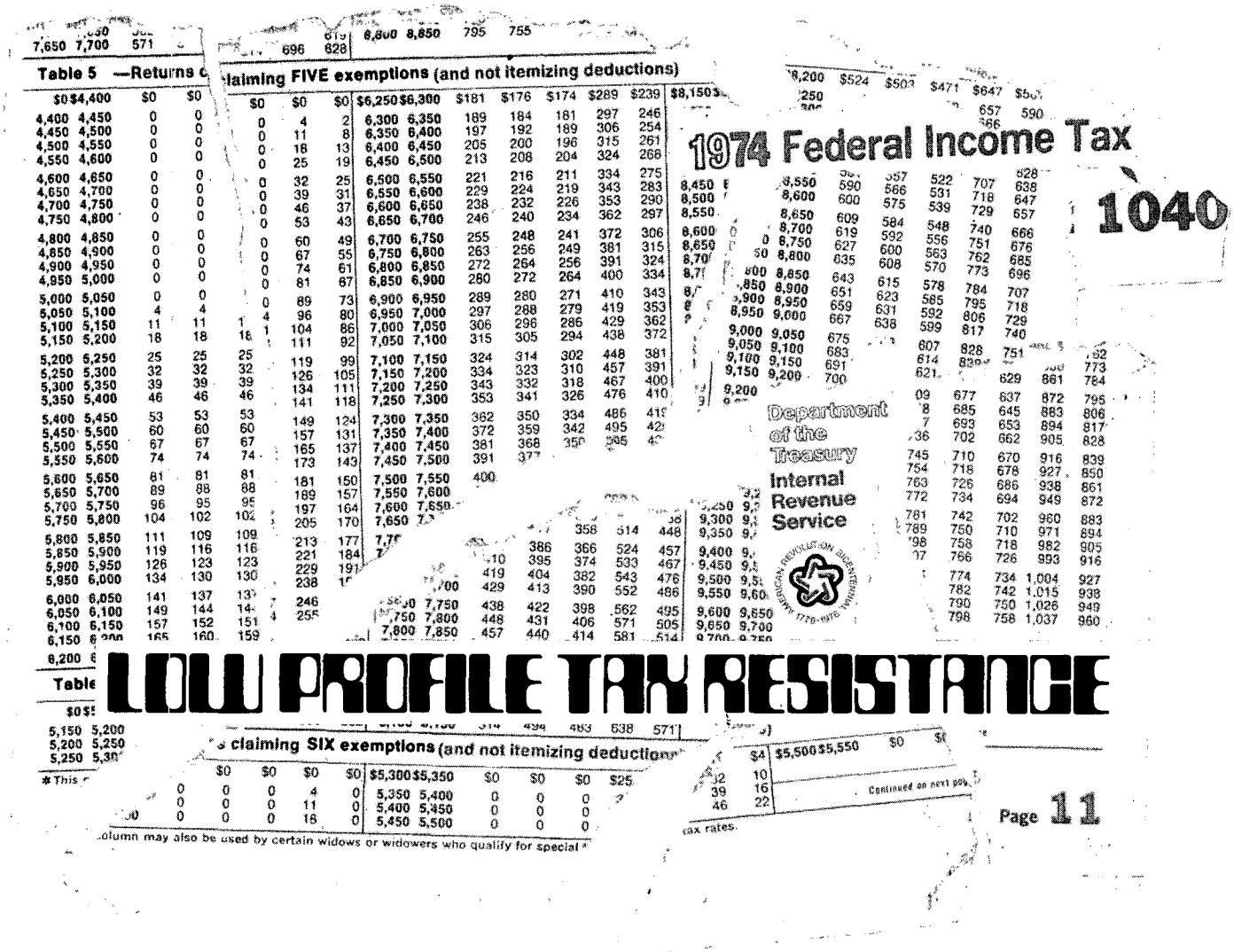

David P Bergland

"Taxation is theft."

That statement is one that libertarians have seen in print and heard many times. One significant intellectual landmark in the personal development of a libertarian comes when the validity of that proposition is accepted. The alleged inevitability of taxation (on a par with death) has been propagandized for so many centuries that most people seem unwilling to subject it to analysis by the same standards which they apply to other coercive action. At the risk of belaboring the obvious, taxation is properly characterized as theft because it involves the taking of a person's wealth by force or (as is usually the case) by the threat of force. One has only to observe the penalties imposed by government for nonpayment of taxes to realize that although most people pay their taxes without much fuss, the government will resort to force very quickly if the taxes are not paid. So much for the bureaucratic propaganda that ours is a "voluntary" tax system!

Resistance to taxation comes naturally to libertarians. Most people would like to avoid the heavy burden of taxation, but libertarians are better suited for it psychologically because they *know* that taxation is a violation of their individual rights. Hence, the prospect of resisting the taxing authorities is a very appealing one. It conjures up visions of the Boston Tea Party and participation in revolutionary historical processes. Unfortunately, head-on resistance to the tax laws and the taxing authorities involves tremendous risks, just as any civil disobedience involves tremendous risks. We owe a great debt of gratitude to radical tax resisters who seek to draw attention to the unconstitutionality of tax laws and procedures employed by taxing authorities. I can agree that many tax laws do violate constitutional provisions, most notably due process, that the bureaucrats involved in enforcing the tax laws often perform in an unconstitutional manner, and that the Courts are notoriously blind and deaf when constitutional issues are raised in tax cases. However, those subjects are beyond the scope of the present article.

RESISTANCE RISKY

With regard to radical tax resistance (e.g., refusing to file, refusing to pay, filing returns which contain no information except refusals to answer on the ground of the 4th and 5th Amendments to the U.S. Constitution, etc.) some further comments are in order. The risks of criminal prosecution are very great and the Government is more often than not

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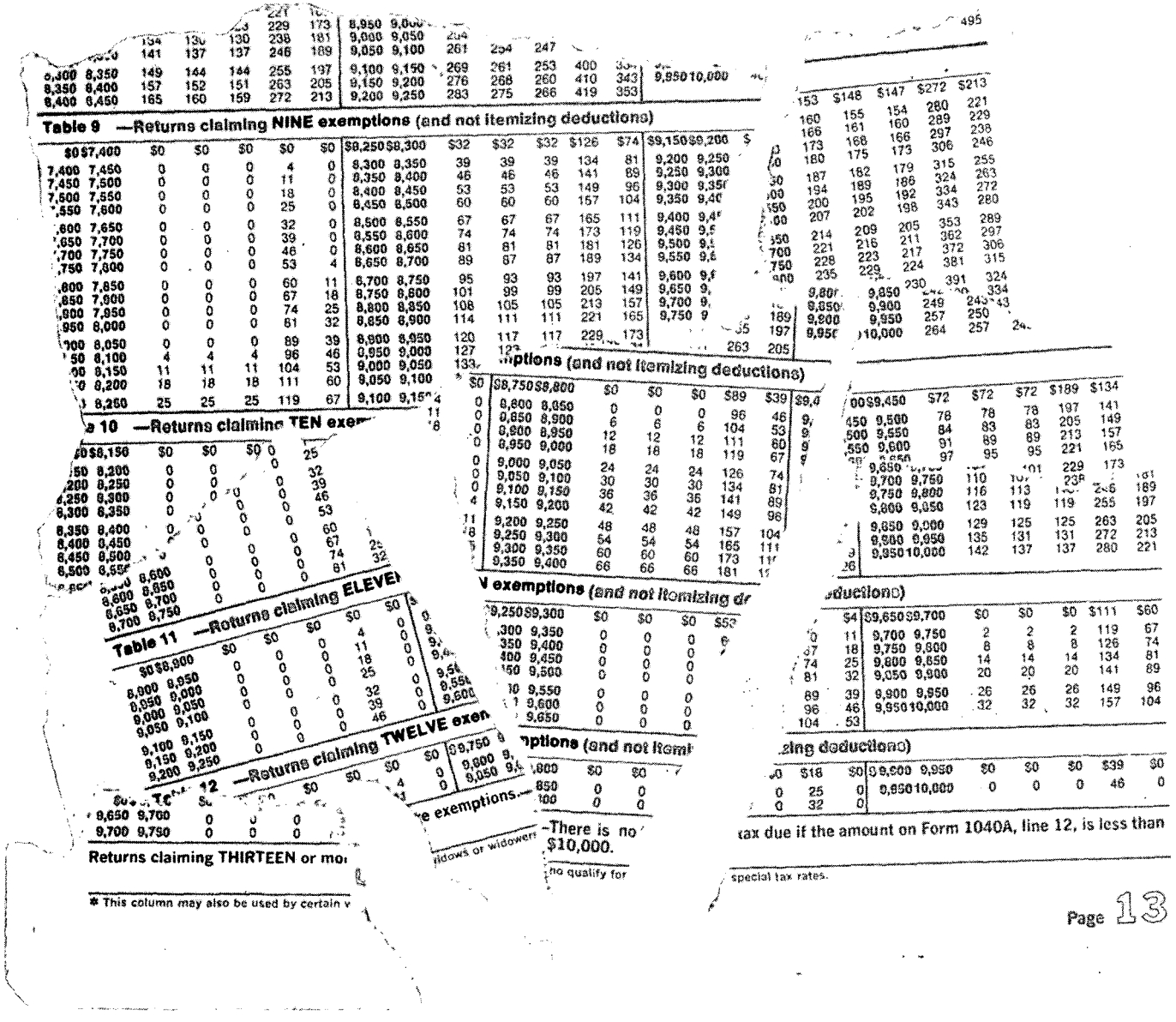

successful in prosecuting. However, this is only one aspect of a two-sided coin. The Internal Revenue Service is also involved in civil tax collection. Regardless of whether a tax resister is prosecuted for violation of some criminal statute, the IRS merely goes on its way collecting the tax. If the taxpayer does not file a return, the IRS is empowered to make its own assessment of the tax owed and to employ a number of procedures for collection. [Internal Revenue Code § § 6020, 6021. Internal Revenue references will hereinafter be designated "I.R.C."] News stories about successful tax resistance usually are stories about successful defense of *criminal* prosecution. The fact that a person successfully defends himself and stays out of jail does not tell the other half of the story, which usually is that the Defendant has been stripped of assets by the IRS and ironically, the Government wound up with more from the resisting taxpayer than if he had filed a standard return.

Another aspect of this picture is that some "professional" radical tax resisters make a business out of selling tax resistance packages and counseling others to follow certain procedures which are represented to be successful. In my discussions with the people who are interested in tax resistance, I find many of them have been persuaded to follow procedures endorsed by certain professional tax resisters, which procedures, if followed, would possibly provide a defense to criminal prosecution, but do nothing to prevent civil tax collection by the IRS. Often this second aspect has never been disclosed. This comes very close to fraud, in my view.

Even the more knowledgable professionals do not always succeed. For instance, Marvin Cooley, noted author of *The Big Bluff,* was recently convicted for willful failure to file income tax returns, even though he based his defense on constitutional issues. His conviction has been upheld on appeal.

All of this had led me to recognize that there is a demand for a low profile approach to tax resistance. The goal is to minimize the tax bite as much as possible, and do it in such a way as to avoid IRS attention. Although committed to the concept that taxation is wholly unjustified, many persons are unwilling to undertake the risks involved in radical tax resistance. Most people are also ignorant of the procedures whereby the little guy can take advantage of those provisions of the Internal Revenue Code which the demagogues refer to as "loop-holes." This article will explore one method available to persons to minimize their taxes and defend themselves against the IRS inquisition if it should occur. It is not intended to be, nor could it possibly be, an exhaustive discussion of all possible approaches.

The thesis of this article is based on three factors: a libertarian value orientation, the Internal Revenue Code, and the Internal Revenue Audit and Appeal System.

LIBERTARIAN VALUES

Libertarians believe that each person is entitled to live his life in accordance with his own values. Unfortunately, the average

person finds himself in a rut or a rat-race existence which is contradictory to the concept that he is the master of his own fate. To live according to one's own values, one must first know what they are. Thus, the first step is to take a long hard look at one's self. There are a number of factors to consider, i.e., age, sex, educational level, present career status, career goals, marital status, children, financial status, intellectual interests and capabilities, physical interests and capabilities, etc. One must use one's imagination to discover what aspects of life are enjoyable, stimulating and relatively available. Unfortunately, for too many people, what they do to earn their living is dull, and what they enjoy doing is relegated to evenings and week-ends. Now is the time to change that.

There is a very simple fact that can be observed in the world. No matter what it is that you enjoy doing, some people are already making their living at it—either directly, or in some peripheral way. For instance, if you like to ski, others are already doing it professionally, or making ski films, or working at ski resorts, or manufacturing and selling ski equipment. For every area of endeavor which might turn you on, it is possible to work in it directly or in some field related closely enough for you to obtain the benefit that you are seeking. The operative principle is to make your work your life, or your life your work. If you are not having a good time at your work, the hell with it. Make some changes. Ironically, the tax laws can help—yes, *help*—you do this.

THE INTERNAL REVENUE CODE

The Internal Revenue Code (I.R.C.) is a very bulky and complex document. It is the result of years of lobbying effort, log rolling, mutual backscratching and all of those other activities that endear politicians to us. Frankly, it is almost totally incomprehensible to any reasonable layman. Most lawyers who specialize in tax work will be the first to assert that the I.R.C. represents some of the worst legislation ever foisted upon the citizenry.

However, there are a couple of fundamental ideas which go a long way toward explaining why the I.R.C. is the way it is. Legislators, in adopting the I.R.C. and amending it voluminously over time, have been guided by two principles. The first is to raise revenue. Even legislators seem to understand that there is no free lunch when it comes to raising the money to pay their own salaries and do other bureaucratic things. The second principle is considerably more complicated. It is that the tax laws can effectuate social policy. That is, by taxing some things more heavily you can discourage certain types of activity and by taxing other things less heavily, you can encourage certain other activities. It is also possible to reallocate wealth from some people to other people and thereby persuade the recipients that it is a good idea to vote for you in the next election. The most obvious example is that the income tax is "graduated"—i.e., people who earn more pay a higher percentage of their incomes in taxes than those who earn less.

The existence of any particular provision of the I.R.C. is likely to be the result of lobbying pressure from some group that is the beneficiary of that provision. Such groups, of course, always are able to point to the great social good of such provisions. The oil industry can quite accurately state that the oil depletion allowance encourages exploration, and everybody knows it is a good thing to find more sources of oil. Charitable organizations can point to the charitable deduction and say that this is good because it encourages private charity from which all benefit. The construction industry can point to the deduction for depreciation on income producing property and state that this is an encouragement to residential construction, etc., ad nauseam.

One major social policy that the Internal Revenue Code is designed to effectuate is the encouragement of business. Although government generally, and the taxation system specifically, is deleterious to business, the I.R.C. is full of provisions (loop-holes?) that are advantageous only if one is in business or conducting some sort of activity for the production of income. Even our legislators know that wealth must be produced before it can be looted. Therefore, we see a great many advantages which the person in business for himself has over the one who works for wages. The inevitable and somewhat ironic, conclusion is that a good way to beat the taxation system is to do what you like to do as a business. This can be done as a single venture or as a "moonlighting" operation in addition to salaried employment, or as one of several independent lines of business, or any combination to which one's imagination might lead. Following are some examples of people who have followed the maxim: "Figure out what you would like to do and make a business out of it."

DO YOUR THING

Some years ago, I had an acquaintance (let's call him "Dick") who held a rather mundane job and who spent all of his time off surfing and skiing. One fine day Dick liquidated all of his assets, bought some motion picture equipment and a station wagon and launched into film making with an emphasis on surfing and skiing. He worked fairly hard, lived on a level not too far above subsistence for some period of time, but gradually honed his skills and was able to market a product which has been enthusiastically received by the public for a good number of years now. So, Dick makes a good living, goes all over the world, surfs where and when he wants to, skis where and when he wants to and exhibits his films to thousands of people who would dearly love to do what Dick does. Under the I.R.C. all travel expenses (e.g., car, train, plane, hotels, food away from home, etc.) are deductible business expenses. [I.R.C. § 162.] Every piece of equipment purchased to carry on the business is a depreciating asset for which a deduction is available. [I.R.C. § 167.]

Another photographer-type (let's call him "Jim") is regularly employed as a photography teacher in a community college. With considerable time off, he likes to go various places and take photographs. So long as Jim structures his activities as income producing, he can take advantage of deductions for his expenses. For instance, if he sells some photographs, or uses them in his teaching, or participates in an exhibition for which he gets paid, he can then deduct his travel expenses in going to the places where he took the photographs, including travel, materials, lodging and food, and all expenses connected with preparing photos for exhibition or sale, etc. [I.R.C. § 162.] Jim is also involved in organizing a literary and educational nonprofit corporation which will have tax exempt status. [I.R.C. § 501(c)(3).] The purpose of the organization is to produce photographs of historically or socially significant places and events for use by historians, museums, college libraries, etc. By operating this tax exempt organization Jim can do the things that he wants to do, and obtain numerous tax advantages. He can make donations from his teaching salary to the corporation and this becomes tax deductible. He can also raise money for its operations from others who are willing to support its activities and who also are able to take a tax deduction for the donation. In Jim's house, of course, considerable space is set aside for his business related activities; he buys a great amount of photographic and related equipment and subscribes to a number of journals. All are tax deductible. [I.R.C. §§ 162, 167.] Now, every bit of this he would do *anyway*, to the extent he is financially capable. By doing it in the way he has, he can do more of what he wants to do and reduce his tax bite to practically nothing, leaving the bureaucrats very little of his money to spend on foolishness.

I have another friend (let's call him "Ed") who is fairly heavily into gourmet cooking, fancy wines, etc. Ed has participated in gourmet clubs and likes to entertain. Doing it the ordinary way would mean that Ed would earn his salary, have the taxes taken out of it, and whatever was left over, he could spend on the things that he likes to do. By the simple expedient of making a business out

of this endeavor, Ed can do considerably more of it because what he spends will be deductible. The key is to charge a small admission. Then, everything which contributes to making a gourmet presentation becomes a deductible expense. For instance, the cost of owning or renting the portion of the house, i.e., kitchen and dining room, even living room for wine tasting, etc., could go into the equation. [I.R.C. § 167.] All the cooking utensils, all the food and wine, the costs of cookbooks and periodicals, related travel experiences to get exotic foods, all would be deductible expenses. [I.R.C. § 167.] Consider the opportunity to attend a convention of famous French chefs in Paris and to deduct the costs of the trip!

Writers have a trememdous opportunity to take advantage of the I.R.C. If writing turns you on, reading and research probably do too. It is fairly obvious that a writer in order to gather material must go to interesting places. He has to have a place to work and that might be his home, or that might be several places, such as a cabin in the mountains or a little place at the seashore. Without belaboring the point, it is fairly evident that if a person writes and actually makes a good effort to get his material published (hopefully with some success) then there are not too many things that he could spend his money on that he could not also deduct as a business expense.

BE SERIOUS

It is important that one not mislead himself in this area. In order to obtain a deduction, the money must be spent. If one spends money on stupid things, even though he might get a deduction, he still comes up short. Many people with fairly high incomes are always looking for "tax shelters" which quite often turn out to be rat holes down which their money has been thrown. They would have been better off keeping the money and paying high taxes on it because they still wind up with some portion of their money in their pocket. The secret is to spend the money on something that you want to spend it on anyway, but to have the expenditure labeled "tax deductible."

In order to succeed in this endeavor, one must actually be conducting a business or an activity for the production of income. Deductible expenses incurred in operating the business are subtracted from the taxpayer's gross income, resulting in a low "adjusted gross income." [I.R.C. § 62.] Personal deductions (e.g., medical) are then deducted from the adjusted gross income to give taxable income. [I.R.C. § 63.] The tax rate is applied to taxable income. The primary thrust of the "make your life your work" approach is to reduce adjusted gross income.

The most important operating rule is to keep records in the manner that businesses keep records. Where taxation is concerned the law places a burden of proof on the taxpayer to show that he is entitled to every deduction. [E.g., I.R.C. § 274, Tax Court Rule 32.] If one goes about enjoying himself in a business-like manner, takes in some income and keeps business-like records, he has a great likelihood of succeeding.

There are some other devices which the average person should consider for purposes of reducing his taxes. First, he should endeavor to be an independent contractor rather than a salaried employee. The result of the independent contractor label is that taxes are not withheld from your wages so that the money stays in your pocket all year long rather than being withheld by the employer and handed to the government who uses it without paying you interest. It also reduces the burden imposed on employers to keep the withholding records and pay over the money. The amount that one could demand for his services as an independent contractor should be somewhat higher than if the same person were an employee, simply because less is taken out by the uninvited third party.

If one finds himself as a salaried employee, it is possible to reduce the amount of withholding by prudent use of the W-4 form supplied by the employer. This is the form which every employee fills out for purposes of determining how much tax is to be withheld from his paycheck. Most think of the number of actual people to be counted in order to determine the number of "exemptions," e.g., the taxpayer, his or her spouse, and their three children, total five. However, additional "exemptions" are available by estimating that one's itemized deductions for the year will exceed certain dollar amounts. The higher the number of exemptions, the lower the rate of withholding. One must be careful in this area because several taxpayers have attempted to reduce the withholding by exaggerating the number of actual dependents, i.e., saying they had 10 children when they only had 3. This type of falsification results in jail sentences. The safe way is to make a high estimate of one's itemized deductions. So long as there is some reasonable basis for the estimate, there is no substantial risk of criminal prosecution.

USING THE IRS AUDIT AND APPEAL SYSTEM

The Internal Revenue Service may at some time decide to audit your return. When this occurs, there are certain procedures to follow in order to take advantage of the tax law. There are three basic concepts which guide your conduct at this point. First, the IRS is primarily interested in recovering tax dollars. Second, the tax collection bureaucracy operates with limited resources. Finally, the penalty for late payment of taxes due is a nine percent per annum charge. (It was only six percent until recently when new legislation, effective July 1, 1975, was passed.) This last item is of primary importance in today's world where unsecured loans can usually not be obtained for less than 12-14 percent and sometimes are in excess of 20 percent per annum.

The first contact from the IRS will ordinarily be a notice of audit. The individual taxpayer will ordinarily be requested to appear at the Internal Revenue Service office for the audit, and to bring his records. Ordinarily an audit will only cover one tax year. The I.R.C. requires that audits be completed and an assessment (statement of tax due) made within three years of the date that the return was filed. [I.R.C. § 6501.] Therefore, if the return for the year 1972 were filed on April 15, 1973, the IRS must make the assessment prior to April 15, 1976. As a practical matter, the IRS will not undertake an audit unless it has more than a year to complete it before the three year period expires.

"Head-on resistance to the tax laws and the taxing authorities involves tremendous risks."

The first question the taxpayer faces is whether to have his accountant or attorney begin representation immediately, or to handle the first stages of the audit himself. It is recommended that the taxpayer at least confer with his legal representative to answer this question. In some circumstances the legal issues involved and the amount of money in dispute are small enough so that the taxpayer can probably adequately handle the situation. In many instances, however, the legal issues are complex, and possibly sensitive, and the amount at issue is large enough to advise involving the taxpayer's professional representative at the outset. Ordinarily, it is safer if the taxpayer has no contact with the revenue agent. The reason is that the taxpayer may make admissions which he does not realize are damaging. Generally, the best situation is to make arrangements for the audit to take place either at the accountant's or attorney's office, and to have the records available to the auditor at that location. This way, the taxpayer is responding to the audit as required by law but, is giving the IRS no more information than is strictly required.

It is also possible in making arrangements for the audit to obtain extensions

of time, putting the day of reckoning further and further in the future. Such extensions are usually easier to obtain when one is represented by a professional. Professionals are also usually more capable of opening negotiations for compromise and settlement. [I.R.C. § 7122 allows compromise of tax claims by the government.] Since the IRS is mainly interested in getting money and closing as many files as possible, IRS agents are nearly always willing to discuss a compromise settlement. Whether or not one is willing to compromise at an early stage, rather than a later one, is dependent upon a number of factors. For instance, if the auditors are focusing on some items which are relatively inconsequential to the taxpayer, but there are other items which he would prefer they didn't consider, the taxpayer might be motivated to pay quickly and have the audit completed and closed. On the other hand, if the agent is looking into everything of consequence anyway, the taxpayer might be wiser to carry the whole audit procedure out for as long as he can. This is a decision which must be made at the time, and about which no generalizations can be stated.

The primary tool in dealing with the IRS agent is the records which the taxpayer has kept. There is nothing so persuasive to an agent as thorough documentation of every expenditure and deduction that the taxpayer claims. If the audit is to cover 5 or 6 items and the taxpayer proves with his records that he is absolutely correct on the first 1 or 2, often the agent will not even look into the remaining items. At the risk of sounding repetitive, thorough record keeping which justifies the claim of every deduction is the best weapon of the taxpayer.

PRELIMINARY NOTICE

Once the audit is complete, the revenue agent will send the taxpayer a "Preliminary Notice" [Internal Revenue Form L-191] of the tax assessment. This is often referred to as a "30 day letter." The reason for this is that unless the taxpayer files "Protest" to the assessment within 30 days, the assessment will become "final" and the IRS collection agents will then proceed to levy on the assets of the taxpayer to satisfy the assessment. If he acts within 30 days, the taxpayer can request a conference for review of the assessment at the District Director level. Here again, it is possible to obtain extensions of time and to negotiate a compromise of the assessment.

Assume that the IRS holds fast and the District Director continues to assert that the taxpayer owes additional money. The taxpayer can then take the next step —further appeal within the IRS, which brings him to the "Appellate Division Conference" level. Again, at this level, it is possible to obtain extensions of time and to negotiate for a compromise. In the event that no agreement is reached between the taxpayer and the Appellate Conferee, the IRS will send the taxpayer a "Notice of Deficiency." [I.R.C. § § 6211, 6212.] This notice means the IRS has decided that the taxpayer must pay a certain amount of tax and that there are no further appeals within the IRS. The Notice of Deficiency is often called a "90 day letter" because it gives the taxpayer 90 days to take action.

The action the taxpayer can take is either to pay the tax within 90 days, or to file a Petition with the Tax Court challenging the IRS assessment. If the taxpayer does not take any action within the 90 days, then the assessment is final and the IRS collection agents will proceed to levy upon the taxpayer's assets to satisfy the deficiency. A great many tales of woe are heard by tax lawyers from taxpayers who have received Notices of Deficiency and have not taken any action to protect themselves within the 90 days. At this point, constitutional arguments based upon lack of due process simply will not hold any water. To give a taxpayer 90 days notice to take his case to the Tax Court is not a violation of due process under any reasonable interpretation of the Constitution. Once the tax is collected, however, the taxpayer can sue for refund in the U.S. District Court. [I.R.C. § 7422.]

"Statistically, taxpayers do better in the District Court than in the Tax Court."

TAX COURT

The Tax Court is the only forum for the taxpayer to obtain a judicial determination of his tax liability without first paying the tax. Thus, the primary advantage of going to the Tax Court is that the taxpayer can keep the money in his pocket until the Tax Court renders a decision. The other avenue for judicial hearing of tax issues is in the United States District Court. Unfortunately for the taxpayer, in order to go to the United States District Court, the taxpayer must pay the tax assessed and then sue for refund. One significant difference between the two courts is that in the Tax Court there are no jury trials. One can obtain a jury trial in the United States District Court. This raises an interesting constitutional question. That is, does it really constitute due process to require the taxpayer to pay the disputed tax before he can get a jury trial, when the constitution grants the right to a jury trial to all persons in cases at law involving amounts in excess of $20? Unfortunately, consideration of that issue is too complex and space consuming for this article.

The Tax Court has extremely limited resources. This is fortunate for the taxpayer once he gets to this point. The Tax Court is a court of nationwide jurisdiction, which is manned by 16 judges. These judges ride circuit, that is, they do not sit in one place, but travel from city to city and hear a number of cases in each. The statistics for the Tax Court are quite illuminating. In the year 1974, approximately 8600 petitions were filed in the Tax Court by taxpayers. Of all the returns audited and all of the disputed tax assessments, only 8600 resulted in taxpayers filing petitions in the Tax Court. Of that 8600, probably less than 1000 will go through trial, if past experience is any guide. All of the remainder will presumably be compromised, either at 100 percent of the assessment or something less. The Tax Court judges are notoriously heavy-handed, pressuring both the Government and the taxpayers to settle cases. Here again, is a great opportunity for the taxpayer to compromise the matter for something less than the IRS assessment.

Although when the taxpayer has his case heard in the Tax Court he is able to keep the disputed tax money in his pocket until after judgment, there are other considerations which argue in favor of using the U.S. District Court. As noted above, in the U.S. District Court the tax must be paid first and then a suit for refund brought. Statistically, taxpayers do better in the District Court than in the Tax Court. This is particularly so when the case is heard before a jury in the District Court. Juries seem to identify with the taxpayer; whereas, the judges of the Tax Court are "experts" in tax law, which seems to mean that they identify more closely with the Government position.

In a U.S. District Court case, a taxpayer also has a broader arsenal of discovery tools which he can use. Most notable of these is the Freedom of Information Act. [5 U.S. Code § 552.] If one is thinking of harassing the Government in such a context it is possible to make the Government attorneys and the IRS agents jump through a number of hoops by use of the discovery tools under the Federal Rules of Civil Procedure and the Freedom of Information Act. Litigation in the Tax Court is much more limited insofar as use of these tools is concerned.

Assuming that the judgment goes in favor of the Government in the case in the Tax Court, this is not necessarily the end of the line for the taxpayer. The judgment can be appealed to the U.S. Circuit Court of Appeals and ultimately to the United

States Supreme Court. [I.R.C. § 7482.] There ain't no such thing as a free lunch, however. Appeals are expensive. Their advisability depends upon the facts of the particular case, most importantly the amount at issue. But, it should be noted that in Tax Court cases filing a Notice of Appeal and posting a bond will prevent a collection of the tax until completion of the appeal. [I.R.C. § 7485.] Thus, once the appeal process begins, the taxpayer is again in a position to discuss compromise of the judgment by offering to pay something less in exchange for withdrawal of the appeal. This is a ploy which can be used until the time the U.S. Supreme Court has disposed of the case. In discussing compromise, one ground that the Government can use for accepting less than the judgment is that there is some question about the ability to collect the tax. [I.R.C. § 7122.] The taxpayer who has spent all of his money fighting the Government is then in a position to negotiate with the Government to take considerably less, simply because he has become a turnip. One would have to have considerable commitment to principle to put himself in that position.

So, eventually, the day may come when the taxpayer must pay up the Tax Court judgment. Alternatively, he may have decided to pay before the matter ever went to trial or he may have settled during trial. In any event, there will be some absolute dollar amount which has been termed due and payable by the taxpayer. Here a great irony arises. The Federal bureaucrats have bollixed up the monetary situation so badly with their inflationary policies that all the delay in the interim simply works to the advantage of the taxpayer. Assume that the taxpayer, as a result of his tax planning, saved himself $5,000 in taxes over what he would have paid if he had conducted himself like a traditional sheep. Now, assume that the IRS has been able to show that the taxpayer must pay back $1,000 in taxes. The penalty for late payment is nine percent per annum on the tax which remained unpaid during the period it has taken to go through the audit, appeal and litigation process. The taxpayer then pays the $1,000 plus nine percent interest. There is no place in today's market that a taxpayer could have borrowed that $1,000 at nine percent. The taxpayer, of course, has had to pay for professional representation during this entire process. Ironically, all of that expenditure is tax deductible as well! [I.R.C. § 212.]

CONCLUSION

The libertarian who is not willing to take the risks involved in total nonpayment of taxes has another, low profile, approach available. This involves first, making an assessment of his own values and interests and then, reorganizing his life so that he can conduct his affairs as a business, or income producing venture. An individual can, of course, be involved in more than one of these lines of business. The idea is to decide what you like to do, and make a business of it. Because the Internal Revenue Code provides tax deductions for expenditures in the conduct of business or for the production of income, a great opportunity is created to reduce one's taxable income to near the zero point. Considering that most reasonably intelligent individuals have an earning capacity in excess of $20,000 gross per year, which is in the 38 percent tax bracket, substantial savings of several thousands of tax dollars per year can be obtained by this method. Then, if the taxpayer is audited by the IRS, the present system for audits, internal appeals and tax litigation creates additional alternatives for the taxpayer to keep his money for a few additional years, and even if he has to give some of it back, that amount is the economic equivalent of a very low interest loan. Finally, all the while that the audit, appeal and litigation process is going on, there is the additional gratification of throwing some libertarian sand into the gears of the Federal bureaucracy. ◻

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It shall be the policy of the Treasury of the United States to stabilize the supply of cash notes and Federal credit in circulation, and thereby to preserve and increase the purchasing power of the currency of the United States.

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That's what people everywhere call the Harry Schultz Letter. It's 11 years old. It was the 1st letter to turn its eyes abroad and become international. It has in fact been published in many countries, currently Switzerland. It's written wherever Dr. Schultz lives. That too has changed many times in the last 10 years. It's the 1st letter to stress the need to diversify assets between countries, banks, kinds of assets and currencies. It has an international readership. It has sections for gold, US stk mkts, world stk mkts, US economics, Global economics, currencies, silver, etc. But the biggest bonus readers get is an insight into the future via Dr. Schultz's contacts with people in high places, people who run govts & biz. There's also survival advice. Price: $225 a year.

5. BOOKS?

Dr. Schultz's books are the path thru which many have come to know of him & then to HSL. The list is long. It began with "Bear Markets" & then came the 1st book on the monetary crisis, called "Int'l Monetary Muddle." In more recent years came a best selling book on Swiss banks, "What the Prudent Investor should know about Switzerland & other foreign money havens." Then "Panics & Crashes"—a runaway best seller, now in paperback too. And the latest hard back book in the list of 10 Schultz books is "Financial Tactics & terms for the Sophisticated International Investor." The books tell you of the calibre of the man who writes HSL & inspires the Clubs.

8. SEMINARS Too?

Dr. Schultz produced the 1st international monetary seminar, in 1967. Since then his occasional global gatherings have been the blue chip events of the year. None are currently planned or scheduled. But since they also feature leading political & monetary figures, it's again an inkling of the calibre of HSL.

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6. HOW MUCH?

Yes, you may have heard that Dr. Schultz's consultation fee is $1,000 an hour. Moreover, he is so fully booked for his time at this price that he is now waitlisting clients. "There isn't enough Schultz to go round" as one observer put it. And here again, it's a measure of the man behind HSL. Advisor to govts, corporations, & individuals.

9. SUMMARY:

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Where To Go To Survive The Collapse

Maia Smith & Ben Baldwin

During the past two years we've been discussing possibilities and trying out alternatives with people we'd feel comfortable with when it came to physical self-defense, surviving deprivation and interrelating in a self-sustaining community. Our purpose here is to record the framework of ideas which has evolved as a result of our discussions and experiences. We want to provide a starting ground so you can do some detailed planning for how and where to locate yourself considering present and future hard times.

Many people fall into the trap of focusing on a particular relationship to society. Don't forget that this relationship is a means to facilitating your happiness in life and not an end in itself. Try to get outside the picture and observe it objectively. The traditional limiting alternatives are: trying to escape from this society, attempting to modify it or planning to build a better one. You don't have to accept package deals or limit your alternatives to inside or outside this society. And, you don't have to sacrifice your dreams in order to have a self-sustaining lifestyle; on the contrary, having to depend on inefficient government services and accepting the irrational strings attached to them is the lifestyle which kills dreams. A rational person designs a lifestyle which provides maximal happiness, rejects those attributes of society which are detrimental, and then, with research and ingenuity, finds the place and means to make reality out of those dreams.

Forget obstacles and traditions for the moment and consider what you want most out of your time for living. Make a list of what you value most and set up priorities. Then look at the way you're living your life. Are you (and the people you love) living a lifestyle which provides prime time and energy for the things you want most? If not, perhaps one of the survival alternatives suggested here can provide the environment you need for your ideal lifestyle.

Each day you experience increasingly worse violations of your freedom to exist as a rational individual. Laws and regulations limit your choices and creative productivity at every turn. It does no good to save your hard-earned dollars—inflation eats away their value. There's no telling what shortages or what prices to expect, so you can't budget your income. Your investment of energy, time, and money to educate yourself for a chosen career might be a complete waste—unemployment lines are filled with college graduates. What has happened to the great American dream? Well, if you've been a voting, law-abiding taxpayer, then you've been sanctioning and paying for the government controls which have destroyed that dream, and destroyed your profit from your productivity. There is a point at which the values you can gain by complying with the government controls on your life aren't worth the constant emotional stress and the slow death of your self-esteem. Certainly, you have inner conflicts so long as you are supporting the system which is destroying your means to make a living. And, so long as you continue to support irrational, antilife politicians, you will be confronted with irrational, antilife alternatives. If you want to be free from conflicting values, you must provide yourself with a consistent environment where virtue *is* profitable and where violating individual rights *is not* profitable. The thinking and productive person cannot survive as such, without being assured of justice.

A common obstacle among our friends has been a hesitancy to take an action which has the appearance of lowering their material standard of living. Certainly you haven't lowered your standard of living by establishing a retreat and using it as a vacation spot for now, or by relocating your business to a less densely populated area where the local economy is freer and your profits are higher than before. Consider more carefully what your standard of living *is*. Think of the emotional and mental energy you waste every day in dealing with people who choose not to think. Meaningful communication with such people is not possible. Yet, to function in this society, you must constantly attempt to communicate. And, as this society becomes more rigidly controlled, you must compromise further and further away from functioning as a thinker and producer. Your self-esteem and your profits are derived from the growth and success of your business (or—your life). Yet, whoever *controls* your business (life) *owns* your business (life). What you are creating and building is not your own so long as the government can legislate you out of business (life).

Don't assume you must lower your standard of living in order to become self-sufficient. It's your long term self-interest at stake, your long term standard of living which you should plan for. You may be pleasantly surprised when you get into the literature of self-sufficiency. There are many ways to provide yourself with *more* comforts, leisure time and intellectual stimulation than you have now! There is no need to buy all your supplies at once, or to have expensive equipment in order to begin implementing your plans.

Ben Baldwin is a native of California with degrees in Bacteriology (A.B.), Infections and Tropical Diseases (M.P.H.) and Veterinary Medicine (D.V.M.) from U.C.L.A. and U.C.D. He has practiced large and small animal medicine in Santa Cruz, CA, Portland, OR, Colorado Springs, CO, and currently Lake Worth, FL. His interests include: creating an ideal lifestyle with Maia and extended family, philosophy, skin diving, sailing, flying and hunting.

Maia Smith (nee Marion) is also a native of California with a degree in English, Speech and Biology (A.B.) from U.C.L.A. She trained in techniques for neurophysiological research at the Brain Research Institute, U.C.L.A. and the Center for Primate Biology at Davis. Currently, she is making her living recording clinical electroencephalographs in West Palm Beach, FL. Her interests include: study of human learning and consciousness, writing poetry and fiction, drawing portraits, painting, making music, skin diving, sailing and exploring the world with Ben, Beau (5) and Danika (3).

FUTURE THREATS TO YOUR SURVIVAL

You need to know, as accurately as possible, what conditions to expect in order to make efficient and profitable preparations. There are several good sources of detailed information available on this subject in the list at the end of this article. We base much of our thinking about future conditions on Harry Browne's books and lectures. We agree that it's difficult to predict the timing and exact course of economic events, because each action the government takes changes the situation. But judging from precedent, whatever the government does the result will be *more* government controls and *less* freedom of action for you.

"Think of the emotional and mental energy you waste every day in dealing with people who choose not to think."

If the government were to stop expanding the money supply, there could be a 1930's-style depression with a stock market crash, bank failures, etc. In some areas the conditions could be worse than the last depression, with increased deprivation and violence in the cities due to the huge concentrations of people and the difficulty of getting food and fuel to them. Then, once the currency devalues to the level of its gold backing, there could be a gradual increase in production and eventually the beginning of a new inflationary cycle.

It's more likely, however, that the government will continue its present policy of expanding the money supply. This could soon lead to runaway inflation, with more drawn out and eventually even worse conditions than the above example. In the case of runaway inflation, the government might attempt to control increased crime by martial law, and shortages in food and fuel by confiscation and rationing (including your private store of gasoline and preserved food). The time could come when the value of dollars was dropping so rapidly that people couldn't exchange them for goods and services (i.e., a real monetary crisis). Without a means of trade, no food or fuel would be transported into the cities. At this point you could expect widespread confusion and panic, rioting by the starving populace, and a breakdown of all government and private services. If the government officials could find a way to pay a military force (a percentage of the loot?), they might attempt to force the productive people to supply necessities for the nonproducers. This could lead to civil war, and ultimately, destruction of the technology supporting our high standard of living.

There are at least two actions the government could take to avoid a monetary crisis. First, a declaration of war on the oil producing countries is possible. On this pretext, conscription and mobilization of defense industries might remove unemployment, and confiscation of food and fuel for redistribution could be accomplished without resistance. This would delay the economic collapse about as well as would a large short term loan with a final, bankrupting balloon payment!

Second, the government could substitute a hard or convertible currency for dollars. This might have a more suddenly devastating effect than a stock market crash, because the rate of exchange could wipe out the bulk of present monetary holdings. However, because of expected political disfavor from the voters, government officials probably wouldn't allow substitution of the currency until things were so bad that there was no choice. It's possible that *both* of the above actions would be used and it's possible that other actions will change the picture before or after the above actions are taken.

There's no accurate way to predict a timetable for the above events, but we can make some predictions of conditions to prepare for. Optimistically, you can expect: a period from 3 to 12 months during which physical security against widespread violence and starvation are major concerns; 1 to 5 years of a severe depression with violence limited by organized defense; and 6 to 15 years of a generally low standard of living.

SURVIVAL ALTERNATIVES

We have grouped the survival alternatives according to emphasis on economy, security, or quality of life, in order to help you relate a survival alternative to your predictions for the future. For example, if you expect a relatively short term economic disruption, followed by business as usual, then an easily accomplished alternative emphasizing physical security would be the logical choice for you. In comparing the survival alternatives on the chart, we chose eight broad categories for evaluation and kept the attributes general so you could insert your personal alternatives into the chart. Each person has a unique context (unique values, abilities, skills, resources, etc.) which will make some alternatives more possible or more attractive than others. We will discuss specific examples of alternatives further to give you some idea of the thinking behind our choices. Keep in mind the possibility of combining parts of different alternatives in order to meet your needs.

BUDGET PLAN

An alternative which everyone can achieve is equipping a trailer or camper truck for a nomadic life. You could keep your camper or trailer in your back yard, stock it with preserved food and supplies as you could afford them, and be able to leave at a moment's notice. In general, this wouldn't offer the security or

quality of life of the alternatives to follow. But, this could be a transitional alternative or a means of transportation to another alternative which, if time permits, you could afford. The preserved food, medical kit, gas drums, camping gear and library stored in your vehicle would be excellent investments no matter what the future brings.

Preserved food could be used as money for trading if you should find an isolated community you want to join. Or if you decided you could safely stay at your present home, you could use your supplies when shortages occurred and prices shot up. The major advantages here are the small amount of money needed, the many uses you can make of your survival stocks, and the fact that you can act *now* to provide for your future survival.

It would be helpful to make weekend trips, scouting for areas with abundant foods and practicing living off the land. Not only is this activity *fun,* but it provides vital feedback on what supplies and equipment you need most or must add, and what skills you must develop. For instance, you need to know what wild foods you can and cannot eat in your chosen area.

EMPHASIS ON SECURITY

Mexico's Baja California, prior to the peninsular highway, had many primitive, self-sufficient groups of people. The natives of Baja have no wealth to be confiscated. They make their living by a knowledge of fishing, food gathering and agriculture along the arid sea coast. They are free from strife over competition for food—what they need has always been and still is plentiful. The big advantage of a primitive culture is isolation from the violence of desperate people and politicians. We haven't been to Baja since the peninsular highway was completed, but in hard times it seems likely that many people from California would be attracted to the good fishing and easy life along the Baja coasts. Even now, however, if you could take with you the technology to obtain fresh water from the ocean (e.g., a solar still) and a small boat, you could live an isolated and healthy existence on one of the many islands in the Gulf of California. In general, the negative effects of a world-wide depression on a particular area would be a function of the degree of its dependence on industrialization. Where the people are self-sufficient as to life's basic needs, they will probably be cheerfully busy with life as usual while the rest of the world's population starves. In a sense, the world could be turned upside down, with the poorest, yet self-sufficient peoples becoming relatively the richest, due to their knowledge of how to live off the land.

A vacation home could be your isolated land retreat. In the deserts, swamps or high country which provide isolation, the geography and usually the climate are extreme. There are ways to overcome most difficulties, and ingenuity in site selection helps. If you were to choose a spot near a usable coal mine in the Rocky Mountains (our example) you could overcome one of the worst problems of high altitudes—fuel for warmth. Plus, the mine could be used as an underground cache for your survival stocks. Water from snow melt is plentiful. If you want to grow food you will need greenhouses or you could use the more extensive technology of hydroponics. However, don't depend on hunting for meat. If you ask anyone in Colorado what he'd do in a food crisis, he and hundreds of thousands of others would answer: "Go back in the mountains and hunt." So either raise your own chickens and rabbits, or eat balanced vegetable proteins. To the degree that the site is isolated you avoid contact with desperate people. However, once you have invested in permanent improvements to a specific place, and you are depending on it for survival, you must have the means to protect your property. Defense, and life in general, is easier when there are several families involved. Lookout duty, child care, fuel gathering, etc., can be divided up, allowing everyone a higher standard of living. However, trying to coordinate a joint effort is always more difficult than doing what you have to for yourself. As a land owner you could lease part of your property to other families in exchange for services. The mountain landscape is soul-satisfying and provides recreating and a healthy environment. You could purchase or homestead your land now, build a cabin and enjoy it while you practice living in the area.

"What you are creating and building is not your own so long as the government can legislate you out of business."

Ocean-based alternatives have some fundamental advantages over land sites for people with the necessary skills: easy mobility, easy isolation, easily

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SURVIVAL ALTERNATIVES

Alternatives

Characteristics

Alternatives

	GENERAL CATEGORY	EXAMPLE	TRANSPORTATION TO SITE	GEOGRAPHY & CLIMATE	SHELTER & FUEL	WATER & FOC
BUDGET	NOMADIC	Equipped camper truck.	Carry enough fuel to get to chosen area.	Choose what you want, move if fuel available.	Mobility provides opportunity for collecting; need knowledge of wildlife.	Fuel is a **major problem.** Store in advance in underground tank
EMPHASIS ON SECURITY	PRIMITIVE CULTURE	Baja California, Mexico.	Plan carefully, carry enough fuel, or travel before crisis.	Choose from tropical to semi-tropical around the world.	Water is a problem in many areas. Plan for trading. Fishing cultures eat well.	Sparse building supplies. Bring your own technology and fuel for cooking and transportation.
	ISOLATED LAND RETREAT	High in Rocky Mountains near usable coal mine.	Store fuel in advance, carry enough to get there.	Plan for extremes.	Plan for food. Mountains have much water but agriculture is difficult.	Plan for heat. Build in advance.
	ISOLATED OCEAN RETREAT	Sailboat based on island near Abaco in the Bahamas	No problem; live near or on sailboat.	Excellent: you can choose from a variety.	Plan for water; collect rain and use solar stills. Seafood abundant — supplement with preserved foods.	Plan in advance. Build house and store supplies on island, including fuel for cooking.
EMPHASIS ON QUALITY OF LIFE	OTHER COUNTRIES WITH INDUSTRY	South Africa	**Major Problem.** Get passport now, get permission to immigrate, have fare money.	Usually temperate to cold; variety to choose from.	Find employment in advance. Bring money.	Investigate these aspects beforehand.
	RURAL LIBERTARIAN COMMUNITY	Group of Libertarian owned farms near a small Mormon town in Utah.	Plan to move as soon as possible before travel is difficult, store fuel in advance and carry what you need.	Usually cool — temperate with seasonal changes; located in river valley.	Need time to prepare soil and grow food supply. Preserved foods necessary.	Bring mobile home. Build energy sources — windmills, methane generator, etc.
	POLITICALLY ISOLATED LIBERTARIAN COUNTY	Sparsely populated county — in your state or a state nearby.	If you wait until last moment — carry fuel, but no problem; no need to travel far.	Excellent: Choose from most any state in the U.S.	Existing supplies would expand to meet population increases. Can trade with other libertarian communities.	Probably many energy sources available. Trade for house or build.

COMPARISON CHART

For Comparison

DEFENSE	MEDICAL CARE	COMMUNICATIONS	MAJOR CONSIDERATIONS
Depends on location. Difficult to defend while moving; can achieve isolation.	Moderate risk of disease. Travel to medical care.	Very poor. Mobility helps with general news.	An easy emergency response, few preparations required.
Not necessary. No crisis here. Just mind your manners and respect local customs.	**Major Problem.** High disease risk. Provide care for yourself.	Poor – bring radios.	Low standard of living but worldwide catastrophe would have little effect.
Plan in advance. Isolation is the main defense. Best with two or more families.	Low to moderate risk of disease. Do it yourself.	Poor – bring radios.	Should improve site in advance. Make cache of survival supplies, no limit to technical improvements, use for vacations.
Plan to be isolated. If attacked a sailboat is very vulnerable. May have to abandon stores and live off sea.	Very low risk of disease. Could travel for complicated care.	Fair – mobility makes it possible, but it's risky.	Can carry very little in boat. Transport supplies in advance to isolated land base.
Obey the laws of the country. Find out in advance if you could accept mores and customs.	Good – about same risk of disease as in U.S.	Good – but remote from family and friends.	Military powers could declare war in order to confiscate the country's wealth (gold, oil, food, etc.).
Organize defense for crops. Mormons might help. Vulnerable to government confiscation (could be a major problem).	Very good. Low risk of disease, plus care nearby (travel to hospital).	Very good. Little need if friends and family are with you.	Isolation (mountains, desert or swamp) would improve this alternative. Advance plans and action necessary. Investment depends on choice. Could lease with option from another Libertarian.
Depends on ingenuity. Many means available. Only significant threat is from state and federal politicians.	Excellent. Best doctors would be here. Local hospital, etc.	Excellent. Could have private telephone system, plus neutralize news censorship locally.	Advantages are overwhelming. Could have near laissez-faire economy. Much ingenuity required on part of the initial organizers. Possible beginnings of true laissez-faire system for U.S.

obtained food and a relatively disease free environment. If large numbers of people took up their guns and tried to live off the land by hunting, gathering food, stealing livestock, etc., not only would they quickly deplete the available food, but in less than one year they would have destroyed the wildlife, the seed stock, the breeding stock and thus, the food producers, for many years to come. The ocean, in contrast, has a far larger supply of food and there are far less people with the skills and means necessary to harvest it. With a sailboat and an island base, you could enjoy the advantages of both ocean and land-based alternatives. For instance, you could purchase land on an island in the vicinity of Abaco, Bahamas, build a house and stockpile survival supplies there. The area is fantastically beautiful, both under and above water, with easy diving and fishing. The people of Abaco are capable of self-sufficiency and would make good neighbors (REASON, October 1974). If defense problems should arise, you could enlist local aid, move your base or abandon the area. There are hundreds of deserted islands and beaches in the Caribbean area. With a deep water sailboat, you could go anywhere in the world, or keep in contact with friends and relatives on shore. Anyone who lives on a sea coast could afford a sailboat now—just live aboard and make boat payments instead of rent or mortgage payments. If you obtained a commercial fishing license or chartered out your boat you could cut down on the cost by making it pay for itself (or operate at a loss and avoid taxes). Young children, however, could be a disadvantage for deep water sailing and live aboard conditions. They would require education, constant entertainment and vigilant looking after. And it would be essentially like living in a box with them. But, again, several families with several boats could provide a division of labor and thus, a higher standard of living.

"Whatever the government does the result will be more *government controls and* less *freedom of action for you."*

All the alternatives emphasizing security share the disadvantage of a fairly low standard of living over the long term. Isolation from a community where a specialization of skills and highly developed technology is possible seriously limits the quality and quantity of goods and services available. Living close to the earth can be fun when you know you can always return to the variety, complexities and stimulation of a community or city. Also, you probably want to have some regular means of communicating with friends and relatives, or getting to them if they should need help. This brings us to the next alternatives, which emphasize the quality of life. These alternatives may provide you with less security over the long term and may require a larger investment of forethought and money, but you could invite more of the people you value to come with you since the living conditions wouldn't be so demanding.

ALTERNATIVES EMPHASIZING QUALITY OF LIFE

Several authors, including Harry Shultz, have written about immigration to other industrialized countries as an alternative—possibly preferable—to facing the future here in the United States. The countries to consider have many disadvantages for a libertarian, but it can be argued that they might endure a world wide economic depression in better shape than the United States.

For instance, South Africa has large gold resources and other natural advantages. It is a highly industrialized country which provides a high standard of living for a large percentage of its population. Some disadvantages to consider are the restrictions on civil liberties (e.g., apartheid, the ban on television) and the political disfavor the country has internationally. As other larger powers such as the United States and Russia become more and more desperate, they might declare war on the unpopular industrialized countries in order to confiscate their wealth. The existence of apartheid would make such actions easier to rationalize. With or without intentions of waging war, the U.S. might restrict travel to some countries in the near future. You should prepare ahead by getting your passport now, having your money for plane or boat fares in a safe place, and planning alternate means of travel. You must be sure that you meet your chosen country's criteria for immigration and employment. For instance, if you are not of North European ancestry or if you happen to have a dark complexion, your entry into South Africa, New Zealand and Australia might be restricted. Do some careful research before depending on this alternative.

A community of rational libertarians could achieve semi-isolation near a small farm-based Mormon town in Utah. This alternative has the major disadvantage of a large amount of advance planning and investment. Also, you would be somewhat visible and required to accept the restrictions and confiscations of desperate politicians from all levels of government (if they noticed you). Among the numerous advantages would be the possibility of a community where you could interrelate and exchange specialized skills with people who shared your values and sense of life. For most libertarians, this would be a substantial increase over their present quality of life, even now, before the major effects of a depression. By choosing a self-sufficient neighboring town, you have increased your economic security by broadening the base for exchange of goods and services. This would especially

be an advantage while the libertarian community was small.

The last example is a politically isolated county full of rational libertarian communities. This could be achieved in a sparsely populated county of your own or a neighboring state. (We have discussed this plan at length with Victor Hedley, who introduced us to it and wants to implement it, given a sufficiently large number of libertarians willing to try it. Anyone seriously interested can contact Victor Hedley, 5050 S.W. 70th Avenue, Ft. Lauderdale, FL 33314, for more information.) Since the legal and political mechanisms of this alternative work to best advantage when the political establishment is ignorant, we will at this time avoid many specifics in our description. Basically, all the local elected governmental offices would be filled by libertarians. This provides a buffer zone between you and the state and Federal powers.

The central mechanism of this alternative is to qualify a large number of libertarians to vote with absentee ballots in the local elections of a particular county. At this time, a person can legally vote in local elections by simply registering at the local court house. However, to avoid the possibility of a later court challenge to your right to vote, you would do better to hold title to some property in the county where you voted. If a judge were to disqualify a particular libertarian who voted, the judge could be personally sued immediately by all the libertarians who voted in the election. The libertarians could represent themselves by filing standard forms prepared in advance at minimal expense. The judge would then have to answer all the suits individually at the various locations where they were filed, at his own expense. If 2000 libertarians had voted in a particular election, any subsequent legal challenges to a voter's qualifications would be made only with very good cause. If properly selected, the county could be incorporated and established as a free port in order to avoid taxes. There could be a county militia supported by the county armory to provide defense during the worst of the crisis. The Sheriff could deputize all the libertarians who could thus legally wear guns. A libertarian bank could be established, with just a state or Federal charter and not belong to the FDIC. The bank could function as a warehouse by holding your deposits in whatever form you choose (i.e., gold, foreign currency, etc.), and could issue Bearer Certificates of Deposit, for various popular denominations. These Bearer CD's might later be exchanged for goods and services. A Chamber of Free Commerce could be established to inform various industries of the advantages (tax and otherwise) of locating their businesses in the county. This survival alternative could provide a substantial increase in standard of living for those involved. Effectively unexercised, local political power could provide a tax haven for productive activity, a buffer from state and national political coercion, and a means of collecting restitution for state and Federal taxation. The specific mechanisms and potential advantages are too numerous to mention here. The major disadvantages are the amount of time and advance organization necessary and the risk of attack from the state and Federal powers due to the envy created by the emergence of a highly prosperous area in the midst of increasing squalor.

"Perhaps the most crucial consideration for survival is to achieve isolation from people not sharing your political philosophy."

Any one of the suggested survival alternatives could be beneficial to the individuals involved, even if the economy is able to remain viable. As more and more libertarians are searching for better ways to live we are discovering more and more imaginative alternatives being successfully implemented. We know of some people in the cypress swamps of Florida right now, living quite comfortably—even luxuriously with swimming pool, electricity, etc.—while still being completely self-sufficient.

VITAL CONSIDERATIONS

Most important, become as self-sufficient as possible and make sure any neighbors you select have done the same. Avoid situations where others expect to depend on you or where you must depend on others (if you're friendly enough to survive marriage, you might survive the close quarters of a sailboat). You may specialize, but try to learn or retain all the basic survival skills necessary for your chosen lifestyle. Provide yourself with alternatives for established services such as: water supply, education, police protection, and postal service. Begin a physical fitness program now. Your mind doesn't reason well when your body is exhausted, and poor judgment can be fatal in a critical situation. Physical fitness also plays an important role in personal defense. Knowledge of your limitations is vital when you must decide whether to fight or run. Japanese style karate (or other martial arts) could provide both fitness and self knowledge, and an aerobic exercise program could make a more consistently creative and productive person of you while providing the physical stamina necessary for handling emergencies.

Try to develop one or two skills to offer in trade for other services and goods. If you have only a few resources put aside, you will be confronted with the necessity of trading your skills much sooner than someone who has a larger survival stockpile. However, everyone will probably be engaged in trading skills and resources long before the general standard of

living has returned to its present level.

Build a survival library. You may be in semi-isolation for several years. Be prepared to provide your children with an education and yourself with intellectual stimulation. You can save yourself energy and hardship with books explaining simple technologies. We have included a list of sources for retreatist literature prepared by Don Doig. You can begin your research by sending for the book catalogs listed there.

You should set about to convert savings, capital goods and equity into gold, silver, preserved food and the equipment necessary for your survival lifestyle. These would be useful for trading during a crisis and as a means of rebuilding after the depression hits bottom.

Perhaps the most crucial consideration for survival is to achieve isolation from people not sharing your political philosophy. If you design a lifestyle which doesn't permit physical or political isolation, then you should try to achieve semi-isolation by lowering your visibility as a thinker and producer.

For your psychological well-being, it's very important that you act *now.* Each step toward self-sufficiency releases you from some of the emotional tension of knowing you aren't prepared mentally or materially, and might not live through the next five years. It's part of your nature to act in your self-interest, and so long as you know critical times are coming and do nothing about it, you're living in constant inner conflict. Time may be getting very short. It's far better to be a year early than a week late. ◻

ACKNOWLEDGEMENT

We want to thank Tom Snipes and Don Doig for their ideas in preparing this article.

SELF-SUFFICIENCY: SOURCES AND REFERENCES

Don Doig has a B.S. in Microbiology, and a B.S. in PreMedicine from Montana State University (1972), and is currently a predoctoral student in Physiology at the University of Miami, specializing in cellular aging. His interests include cooking, hunting, fishing, skin diving, and humanities study. He is currently chairman of the Libertarian Institute for a Free Economy in Miami, Florida.

Anyone who is interested in setting up a self-sufficient retreat is immediately confronted with the problem of where to get the essential information. Goods and services which are taken for granted in a technological society now have to be provided by the individual—but how? Fortunately a considerable literature on the subject exists, if you know where to look. This is an attempt to present enough basic source information to get prospective retreaters started. The general references are especially useful, but I have provided more specific references as well. I have not personally read everything I have recommended, nor should this bibliography be considered complete.

GENERAL REFERENCES

The Updated Last Whole Earth Catalogue and *The Whole Earth Epilog*—

These are good source books for references on just about any aspect of back-to-nature, survival and self-sufficiency technology.

Mother Earth News—

This magazine offers detailed information in the form of articles on a wide variety of topics related to self-sufficiency. Highly recommended. How-to-do-it articles on homesteading, methane-generator building, organic gardening, animal husbandry, and much more. Back issues are available, and I recommend you get them all. (P.O. Box 70, Hendersonville, NC 28739. One year, six issues $8.00.)

Mother's Bookshelf—

This is the book service for the *Mother Earth News.* It is an excellent source of books dealing with organic gardening, crafts, building (houses, boats, etc.), wild foods, survival, cooking, alternate energy sources, homesteading, animal husbandry. Ask for their catalogue. (P.O. Box 70, Hendersonville, NC 28739.)

HARRY BROWNE'S *How You Can Profit from a Monetary Crisis*—

This is a book you should definitely read. Contains an analysis of why he thinks an economic collapse is imminent—and what you can do to protect yourself. Covers retreats. $2.25 at your local bookstore.

Libertarian financial forecasting newsletters can be quite useful in predicting trends and in offering advice. They also carry survival-retreat information.

The Inflation Survival Letter is particularly good at 26 issues for $30. (410 First Street, S.E., Washington, DC 20003.)

The International Harry Schultz Letter is also good, but expensive. $225 per year or $135 for 6 months! Make checks payable to: Financial and Economic Research Corp.—for deposit only and cross the checks diagonally through the center. (P.O. Box 1161 Basel 4002, Switzerland.)

A new newsletter is the *Laissez-Faire Enclave Report,* dealing with survival information. (P.O. Box H, Dover, PA 17315. $12.00 per year.)

Retreater's Bibliography—

From Don and Barbie Stephens, this is an extensive libertarian oriented self-sufficiency bibliography. Expensive but fairly complete. Published in 1970, it is somewhat out of date. 24 pages. (Order from Don and Barbie Stephens, P.O. Box 141, Glendale, CA 91209. $12.)

Foxfire and *Foxfire Two*—

Good information on hog dressing, cabin building, spinning and weaving, etc., etc. Available in paperback. Check your bookstore.

GENERAL SUPPLY

Mother's General Store Catalogue #5—

This is where you go to buy: cast iron wood-burning stoves, grain mills, pressure canners, milk pails, ice cream freezers, cider presses, old fashioned building supplies—like froes (for splitting shingles, staves, and clapboards), carpenter's adzes, and double bit axes—garden tools, livestock and poultry supplies and equipment. You can get washboards, boots, kerosene lamps, knives, sleeping bags and leatherworking tools. Plus lots more. (35¢ from Box 506, Flatrock, NC 28731.)

The Last Whole Earth Catalogue (updated) and *The Whole Earth Epilog*—

These are indispensable starting points for anyone interested in self-sufficiency. They constitute an *extensive* source book for self-sufficiency tools and information. Farming and organic gardening, cooking, beekeeping, animal husbandry, power sources (solar energy, windmills, etc.), crafts—woodworking, leatherworking, weaving—arts, music, housebuilding, camping and survival supplies, sailing, boatbuilding. Tools, equipment, and supplies can be ordered directly from the

(continued on page 95)

Survival

THE FOOD CRISIS IS REAL!

YOUR MONEY, SILVER OR GOLD ARE OF NO VALUE WHEN FOOD IS NOT AVAILABLE AT ANY PRICE

MOST FAMILIES DO NOT HAVE SUFFICIENT FOOD TO SUSTAIN THEMSELVES FOR ONE WEEK!

"L.A. POLICE TRAIN FOR FOOD RIOTS"
Los Angeles Times
January 23, 1975

Yes, World Food Supply authorities, reports in Wall Street Journal, and national magazines, all agree that the United States will experience a food crisis of catastrophic proportions.

U.S. News & World Report
(March 10, 1975)
"More Families Stockpile Survival Foods"

****

Time (March 3, 1975)
"Storable Food Sales Soar"

****

The National Observer (March 30, 1974)
"The Next Crisis: Universal Famine"

The Russian grain sales prove we can no longer rely on our government to adequate food reserves (our food reserves are down to less than 28 days). Fertilizers, fuel, and other materials vital to the farmer for food production are in short supply.

The number one demand the world over is for food, and the supply is rapidly falling behind (note the recent world food conference in Rome). Retail food stores and warehouses have at most a two or three day food supply. If delivery is interrupted because of strikes or national disaster, store shelves empty quickly (remember the Cuban Missile Crisis, how the shelves were emptied).

You cannot depend on the government in seeing that everyone has their fair share of food. The only dependable food source will be what *you* can personally store.

What are the problems of storing ordinary foods? Wet canned food lose taste and nourishment in about a year, mostly water, therefore heavy and bulky. Packaged foods are subject to insect larvae infestation, rodents, and spoilage due to moisture, air and temperature; wrappings and boxes easily destroyed. Frozen foods - No! The first thing effected in a natural disaster is electricity.

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SURVIV-ALL IND. low moisture food represents a new space age technology in food storage. 94% to 98% of the moisture is removed. Then, the food is vacuum packed in an inert storage atmosphere in No. 10 cans (about one gal. size). The result - a low moisture food with approximately 98% of the oxygen removed. SURVIV-ALL IND. low moisture foods have a shelf life of over 10 years (depending on storage conditions). Most foods stay fresh after opening for for over a year with-out refrigeration.

Everyone knows food prices will continue to rise. You will never see food this cheap again. You will save a great deal of money, if you stockpile your food now.

Don't wait until the crisis, begin your home food storage program *immediately*. If you have the money, buy your whole program now, at least a one year supply for each member of your family. If you don't have the money, start making some sacrifices and buy each month as much as you can. Remember, it's better to be a few months too soon, than a day too late.

Food on the shelf is better than money in the bank. Prepare NOW! Don't wait until the shortage.

ORDER TODAY and Receive FREE Low Moisture Food Cook Book

Send__Modular Units and Cases A,__B,__C,__D,__F,__G,__H,__
I,__J,__K,__L,__M,__N,__O,__

Total amount $_____ Freight collect GUARANTEED 100%

☐ Check or M.O. Card# ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

☐ Master Charge M.C. ☐☐☐☐ DATE EXPIRES_____

☐ Bank Americard

REFERENCES: Ridglea State Bank, Fort Worth, Texas 76116

SURVIV-ALL IND.
1505-B Oak Knoll
Fort Worth, Texas 76117
(817)834-8616

Name _____

Address _____

City State Zip

Allow 3-4 weeks for delivery

READY RESERVE MODULAR UNIT $345.97

BASIC MODULAR SURVIVAL STORAGE UNIT CONTAINS (66) #10 SIZE CANS (11) CASES. 12 MONTHS FOOD SUPPLY FOR AN ADULT.
(Depending on basic daily use)
APPROXIMATELY 32¢ - 41¢ PER MEAL.

CASE A: $22.50
1 Corn Meal
2 Rolled Oats
2 Rice
1 Popcorn

CASE B: $20.23
1 Spaghetti, cut
1 Wheat, cracked
3 Cereal, fruit & nut
1 Macaroni

CASE C: T.V.P. $23.99
4 Beef T.V.P.
2 Chicken T.V.P.

CASE D: T.V.P. $24.92
2 Ham T.V.P.
2 Plain T.V.P.
1 Peas, Gr. Split
1 Baby Lima

CASE E: $57.81
2 Eggs, whole or scrambling
1 Soup base beef
1 Soup Base chicken
1 Peanut butter, powder
1 Cheddar cheese

2 CASES F: $50.79
12 Milk, instant nonfat

CASE F 1: $35.91
6 Milk, Regular Nonfat

CASE G: $45.29
1 Apple sauce
2 Fruit mix
1 Banana slices
2 Apple slices

CASE H: $39.61
1 Peas, gr. garden
1 Tomato Crystals
1 Soup blend
1 Cabbage
1 Carrot
1 Cut Green Beans

CASE I: $29.97
3 Potato Granules
2 Potato Dices
1 Yam Flakes

THE ABOVE MODULAR UNIT CASES CAN BE ORDERED INDVIDUALLY.

SIX OPTIONAL CASES

CASE J: $44.41
1 Gelatin, Citrus Flavor
1 Gelatin, Fruit Flavor
1 Tapioca
1 Dessert Filling Mix
1 Milk Shake Mix
1 No Bake Egg Custard

CASE K: $29.97
1 Salt
1 Pepper, Black
1 Yeast, Active Dry
1 Brown Sugar
1 White Sugar
1 Baking Powder
1 Baking Soda

SIX OPTIONAL CASES

CASE L: $37.39
1 Corn
1 Spinach
1 Celery
1 Onion
1 Carrot
1 Stew Blend

CASE M: $46.93
1 Date Dice
1 Fruit Cocktail
1 Peach Slice
1 Prune
1 Raisins
1 Banana Slice

CASE N: $52.06
1 Shortening
1 Margarine
1 Butter
1 Sour Cream
2 Eggs Whole or Scrambling

CASE O: $17.39
6 Hard Red Wheat

Right to substitute when necessary. Additional food supplements and survival equipment are available.

Deadly Weapons for Gentle People

Paul R Benjamin

The thought of living in a society that has become so degenerate that one may require lethal force to protect life and property is justly repellent to rational people. And yet a barbarous society could easily develop in the desperate aftermath of an economic crisis. Since it appears that such a crisis is distinctly possible (some would even say probable) it seems necessary for prudent people to give careful if reluctant thought towards selecting and learning to use defense firearms suited to their individual needs. Matching weapons and appropriate training methods to common defense situations is the major topic of this article.

No prior experience with firearms is expected on the part of the reader. Indeed, people who are knowledgeable in the use of firearms have doubtless suitably equipped themselves and are not in need of additional assistance. The discussion which follows is intended for the novice who wishes to achieve an effective level of competence in the use of one or two well-chosen weapons without spending an undue amount of time and energy in the process. Fortunately this goal is not difficult to achieve.

Modern firearms are specialized tools and choosing single weapons for multiple uses involves unavoidable compromise. Still it is possible to find excellent firearms that will perform one's priority functions extremely well and yet remain adequately effective in related secondary situations. Priority functions for most people are: 1) the defense of the home and its contents, 2) the defense of one's person while out of the home.

HOME DEFENSE

In the defense of the home no finer weapon exists than the shotgun whose formidable power is legendary. (Indeed, shotguns are frequently used by professional hunters in East Africa when it is necessary to pursue wounded lions in dense brush.) And yet for all its effectiveness the level of skill needed for home defense may be achieved by most people in a single afternoon's practice. In addition, shotguns may be obtained in most areas with a minimum of bureaucratic fuss.

The shotgun selected should be a pump action model in either 12 or 20 gauge with a short, open-choked barrel designed for shooting deer. Such a weapon holds five cartridges; it is short enough to manipulate quickly, and will allow the fullest spread of pellets in the shortest possible distance. An excellent choice is the Remington 870 Brushmaster. Select the more powerful 12 gauge model if *all* the individuals who will be shooting it weigh at least 125 lbs; otherwise the 20 gauge should be chosen. Please

---

Paul R. Benjamin first became interested in defense firearms while working as an accountant with Ives, Gregson and Company in New York. In his spare time he developed his well-known techniques for using these weapons and has recently moved to Chicago where he is devoting full time to improving the civil use of firearms.

note that for purposes of short range defense shooting the smaller 20 gauge does not result in decreased effectiveness. Thus if any question exists regarding the choice of gauge, opt for the more easily controlled 20.

Ammunition intended for interior use should be the variety designed for shooting doves and quail. Such loads will stop an aggressor instantly but will not so severely upset the shooter as to delay a quick second shot in the event of a miss. Moreover, these medium powered loads, while being completely effective against humans, are not likely to penetrate walls and perhaps injure innocent people elsewhere in the building. *Under no circumstances* should apartment dwellers or persons with large households keep shotguns loaded with magnum ammunition. However, powerful loads should be readily available in case it becomes necessary to protect one's well-provisioned home against plunder. Buckshot loads are ideal for such grim service.

All individuals in the household who may need to use the shotgun must receive sufficient practice with the weapon to insure success in a crisis. First, basic familiarity with the firearm must be achieved. Know how the shotgun functions, how it is loaded, and how it is made safe. Please keep in mind that a weapon is most likely to be needed at night and all operations should be sufficiently familiar that they may be performed in the dark. Next, by firing at targets set at different distances everyone should note the degree to which the shot cloud expands at expected ranges. Lastly, each user must fully understand the lethal potential of the weapon they may one day use in earnest. As a demonstration a large, water-filled can or bucket should be shot and its total destruction duly noted by all concerned.

Once everyone is familiar with the safe operation of the shotgun and understands its capabilities it will be necessary to practice firing under simulated conditions. Earmuffs should always be worn during such sessions. Since household defense is intended the ranges need be no longer than the greatest distance in the home. Targets should be large to approximate the human torso: sheets from a legal tablet serve well. *Emphasize accuracy over speed at all times* and do not neglect to continually stress the need to *clearly identify* any target before firing—unhappily, many people are killed each year in their homes by family members who mistook them for burglars.

The following practice game is suggested which promotes good defense shooting skills plus positive target identification. Several targets are set up behind a shooter which are in every way identical except for clearly visible numbers marked on their faces. On signal the shooter turns and fires at a single directed number only. Speeds and hits are recorded for scoring purposes but mistakenly shot targets result in an automatic loss. From time to time vary the practice by giving one number immunity while requiring the shooter to hit the others as rapidly as possible. Again scores are recorded and disqualifications result if a safe target is hit. Individuals who are proficient at this game may be relied upon to give an aggressor a short but highly exciting time indeed and yet present no threat whatever to family members and friends. This training is enjoyable but yet extremely effective since a high level of skill is quickly reached by all shooters. Additionally these successes build confidence which is essential to effective action in a crisis.

IN DEFENSE OF PERSON

During the unsettled times following an economic crisis it will not be possible for most people to remain in their homes until normalcy returns, and yet travel outside the home may be very dangerous. In preparation for such an eventuality the reader is urged to acquire and gain proficiency in the use of one final weapon—a small but powerful handgun which is to be worn hidden about the person but may be produced and fired quickly in an emergency. Unfortunately in many parts of America handguns are difficult to obtain in a straightforward manner. However, those readers who live in areas where handguns are highly restricted may be certain that in such localities a weapon will be needed all the more and whatever effort is required to procure one should be expended.

What is needed is a small .38 caliber revolver with a rounded handle and a barrel not longer than three inches. An ideal choice is the Smith & Wesson Model 36 or its stainless steel equivalent, the Model 60. Such a weapon is utterly devastating when used with high velocity, hollow point ammunition and is far easier to shoot accurately than most individuals have been led to expect.

Some readers may be tempted to rely upon an automatic loading pistol instead of a revolver. The only important advantage of an automatic is its quicker reloading capability. Although this feature is of decided importance to a soldier in a situation where many highly trained and determined aggressors may be encountered at once, in a civilian situation one is unlikely to meet a group of more than two or three adversaries in which case a revolver's 5 or 6 shots are more than adequate. Of far more importance to a private citizen are such factors as safety, concealability, reliability, accessibility, and simplicity of use. In these areas a revolver of the type previously recommended is clearly a superior weapon.

Before practicing with the handgun it will be necessary to first obtain a suitable holster. Select a hip scabbard with a slight forward tilt and without a retaining strap. Such a holster will fit either a man or a woman and will conceal a firearm under a coat or jacket while maintaining the weapon in the proper position for rapid use. Small individuals who may have difficulty fully concealing a firearm are urged to select a suit of bulky clothes for those occasions when it must be carried. Weapons must never be carried in purses or briefcases which might be snatched away.

One last item must be attended to prior to shooting—the weapon must be made to fit the shooter's hand properly if it doesn't already do so. Individuals with small hands usually experience no difficulty in this regard but large people often require oversized grips. Items of this sort may be obtained at modest cost through firearm dealers.

Training with a defense handgun must approximate real life situations as closely as possible. In almost every case where deadly force is needed to preserve life in the street, the aggressor is within a very few feet of the victim. Frequently both parties are in physical contact. Survival depends upon the ability to quickly deliver one or more shots somewhere in the attacker's torso. Thus, pinpoint accuracy as learned on traditional target ranges is completely inappropriate to actual conditions.

Defense training should begin in the home with an unloaded weapon. Practice drawing, extending, and firing the handgun in one smooth, continuous motion. Keep the firearm low and pay no attention to the sights. Practice only to the point where one is certain that the weapon is not being fired until safely clear of the body then switch to an outdoor setting and live ammunition. Use a piece of legal sized note paper as a target placed not more than three feet away and slightly above stomach level. Repeatedly draw and fire as was done at home with primary attention being given first to accuracy and then to speed. With a bit of practice the shooter will begin to turn in increasingly impressive scores which are the source of much satisfaction. Vary the sessions by adding multiple targets ahead of and then behind the shooter. Initially each variation will result in lowered scores but performance quickly improves to the point where the shooter may be considered deadly in any close range situation.

Once the preceding task is mastered target distances may be gradually increased. As this is done one automatically extends the weapon further from the body and somewhat higher than was true at very close ranges. In spite of this adjustment however, the shooter will reach a point at which scores begin to fall off. At distances greater than a few feet good performances may only be obtained by holding the weapon with both hands (one around the other) and paying increasing attention to the sights. But do not become too concerned with distant targets. A high level of proficiency in close shooting offers the greatest survival value and is neither difficult nor excessively time consuming to achieve.

ON USING FORCE

At this point a few words are in order regarding the use of deadly force to repel violence. The moment a person initiates a violent act that person relinquishes the right to be safe from violence. At the same moment the intended victim is released from the obligation to withhold force and if, in the defense of life, such force is required it may be applied with the conviction that to do so is a moral act. The point is that the aggressor in attempting to do murder repudiates life and thereby unavoidably validates death. That death should be such a person's fate is completely appropriate to their expressed philosophy.

Although it is not pleasant to coldly plan the means to destroy another human being it is nevertheless true that deadly weapons have often enabled gentle people—and all that they represent—to survive in the midst of savagery.

May you live a long and propserous life. ◻

ADDITIONAL INFORMATION

Firearms: Remington Arms Company, Inc.
P. O. Box 9500
Bridgeport, CT 06602

Smith & Wesson
2100 Roosevelt Ave.
Springfield, MA 01101

Holsters: Safariland
1941 S. Walker Dr.
Monrovia, CA 91016

Grips: Herrett's Stocks, Inc.
Box 741
Twin Falls, ID 83301

Instruction: *No Second Place Winner*
by Bill Jordan
P. O. Box 4072
Shreveport, LA 71104
($6.50 direct & worth it)

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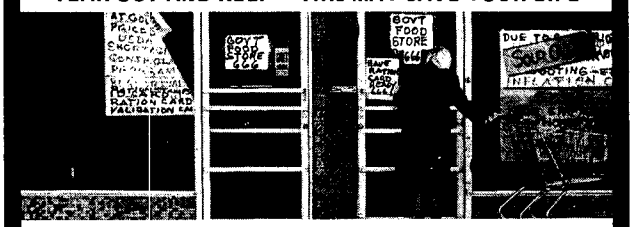

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Surviving Survival Foods

James Burch Powell

It is obvious to most individuals that economic systems throughout the Western World are in a very poor state of health. The possibility of global depression is real and the grim spectre of monetary collapse looms more threatening than nuclear war in the minds of millions of people. Since the supply of agricultural products is vulnerable to economic disaster, it is not surprising that tens of thousands of people are acquiring food reserves as insurance against the possibility of financial breakdown.

Unfortunately, many people do not know how to select foods for storage and are making poor choices as a result. This article is an attempt to present sufficient information to concerned individuals so that they may make satisfactory decisions regarding survival foods. Such decisions must be based upon a full understanding of the assets and liabilities of potentially useful foods, a careful appraisal of one's personal status and needs, and an estimate of the nature and severity of the times ahead.

TRADITIONAL STORAGE FOODS

Traditional storage foods (TSF's) include such staples as whole grains, various types of beans, peas, and other selected dried foods. They may be obtained either in bulk or in three-quart (#10) cans. Traditional storage foods are both nutritious and flavorful and have been popular for ages. They also tend to be the least expensive of all the survival foods. TSF's have a very low moisture content (which promotes long shelf life) and must be rehydrated before use. Consequently, as a group, they should not be chosen by individuals whose water supply might be interrupted in an emergency unless sufficient water is to be stored. Calculate water needs *carefully,* since you may find rough estimates to be low. For example, a typical storage food recipe is for steamed wheat, in which each 5 cups of grain requires 7 cups of water.[1] Since there are 12 cups of wheat in a #10 can and six cans to a case, for each case you will need *at least* 6.3 gallons of water. Other TSF's require equally large amounts of water.

TSF's are also quite demanding in terms of fuel, since most require long cooking times. Again using steamed wheat as an example: 4 hours of cooking is needed for each 5 cups of wheat; 9.6 hours per can; and 57.6 hours per case. Even at low simmering temperatures fuel requirements are high when such times are involved. For example, a #425 double-burner Coleman stove burns 18,700 Btu's per hour. Since each gallon of fuel contains 120,000 Btu's and the stove is 90 percent efficient (very good), .026 gallons are used per hour with the stove at 15 percent output—approximately the simmering level.[2] In terms of total fuel requirements per case, steamed wheat takes a minimum of 1.5 gallons if cooked in quantities of 5 cups. If you work up similar fuel totals for recipes intended for the other grains, beans, and peas, you will quickly realize the extent of your fuel needs and may plan accordingly. Since these foods *must* be cooked to be usable—and you can't rely upon uninterrupted public utility service in an emergency—it behooves users of traditional storage foods to keep all needed fuel on hand.

TSF's have another characteristic which should be noted: they require a great deal of time, labor, and—often—skill to prepare. For individuals with families in a stable situation where someone is available for full-time food preparation, such requirements are not important. However, people without the time and/or skill to devote to cooking should not rely solely upon TSF's for survival. This is especially true since demands on one's time are likely to be great in an emergency when labor-saving devices may not be functioning.

CANNED FOODS

Wet-packed canned foods lend themselves readily to storage use and may be purchased inexpensively in quantity. Although they are heavy and tend to be low in vitamins C and B, canned foods as a group have a number of characteristics of decided importance in a survival situation.

Canned foods are sterilized at the time of packing

James Powell has a M.S. degree in science from Oregon State University, and now owns and manages Sceptercraft Boats in Corvallis, Oregon. In addition he serves as a consultant to individuals planning survival food programs.

and do not spoil as long as the cans remain intact.[3] Purely chemical changes do occur with time, but these changes affect mainly taste and texture—not safety. Thus even short-lived canned foods such as fruit juices with a recommended maximum storage life of 6 months are safe for years although they will not taste as fresh as when young. In any event, the way to maintain a supply of any food is to use it and replace it on a continuing basis. To this end the familiarity of canned goods in most homes makes them much more likely than other survival foods to be rotated regularly.

Most canned foods are cooked at the time of packing and require only warming at meal times which consumes very little fuel. And, of course, they may be eaten cold if necessary. Water requirements are also low since canned foods either contain all that is needed or require only supplemental amounts. Lastly, canned foods need almost no time or skill to prepare.

FREEZE-DRIED FOODS

Freeze-dried foods are often confused with dehydrated foods although the two are not the same. Foods undergoing dehydration shrink as water is removed with a resulting collapse and permanent damage to the food's cellular structure. On the other hand, freeze-dried foods are quick frozen to prevent collapse, then the frozen water is induced to escape as a gas via sublimation. Thus, both freeze-dried and dehydrated foods have low moisture contents, but freeze dried foods are in a less distorted condition.[4]

Although freeze-dried foods are expensive, they offer advantages in situations where an abundant water supply is assured. Since they are usually cooked before being processed, they require very little fuel or skill to prepare. And light-weight freeze-dried foods have an indefinite storage life. Lastly, the extreme stability of freeze-dried foods makes the heavy use of preservatives unnecessary with the result that proteins in particular may be stored for many years and still taste fresh. Freeze-dried steaks and chops supplement more mundane survival diets and may be invaluable during times when a psychological boost is needed. Whatever freeze-dried foods may be selected should be obtained in meal-sized containers rather than in bulk as unsealed portions tend to absorb moisture from the air and spoil rapidly.

PERSONAL STATUS AND NEEDS

If you live on a working farm with your family, you are perhaps in a better position than other people to survive a severe economic breakdown. In all likelihood, your situation could be altered if needed to achieve self sufficiency. If you are a cash crop farmer, perhaps devoting a few acres to vegetables and a few to livestock and poultry feed would be wise. It might be safest to use nonhybrid varieties which will produce viable seeds for starting next year's crop rather than depending on a new supply each season. Also you might give some thought towards the possibility that it might be necessary to farm at least part of your land without depending on a tractor, commercial fertilizers, or sprays. And once the harvest is in, will you be able to preserve it with your present equipment or should you do some expanding in that area?

CHARACTERISTICS OF POTENTIALLY USEFUL FOODS

1 = best, 3 = worst in comparison to the others.

	COST	PORTABILITY	USE ON THE GO	WATER NEEDS	FUEL NEEDS	COOKING TIME	COOKING SKILL	COOKING LABOR	FAMILIARITY	PALATABILITY	NUTRITION	STORAGE LIFE
CANNED FOODS (wet packed—cooked)	2	3	2	1	1	2	2	2	—	—	3	3
TRADITIONAL STORAGE FOODS (grain, beans, peas, etc.—uncooked)	1	2	3	3	3	3	3	3	—	—	1	2
FREEZE DRIED FOODS (in cans or pouches—cooked)	3	1	1	2	1	1	1	1	—	—	2	1

Adding up grand totals for each of the three categories is tempting but probably meaningless for most individuals who will have greater need for subtotals based upon factors which apply to their particular situations. Example: a single urban person will probably weigh cooking time and skill heavier than will a farm family. Also, for some people a single factor may provide a ruling reason for selecting a particular food. Example: an individual with an unreliable water supply and no ability to store water may reject certain foods on the basis of water needs alone. The point is, you must know your requirements and then select foods which satisfy them.

The amount of storage food needed for a working farm may be reliably determined since the time to the first harvest is predictable. If you have skilled help in the kitchen, plenty of water (not dependent on an electric pump) and an uninterruptable fuel supply, traditional storage foods may suit your needs very well. If any of the previous conditions may not be met, then it would be wise to stress ordinary wet packed canned goods instead. As we have seen, canned foods require almost no water, little fuel, and may be eaten as is in an emergency.

Individuals living in the country with their families on a few uncultivated acres of land could also aim for self sufficiency, although it may be more practical to simply acquire the means to start small-scale farming than to actually begin doing so. In all other respects, it is probably appropriate to follow the suggestions for a working farm, except the quantity of survival food may be larger due to the uncertain length of time to the first sizable harvest.

If suburbia is home to you and family, and you have a yard which could be used for growing vegetables, it may be possible to at least partly feed yourselves on an ongoing basis. To do so will require a very sound knowledge of organic farming in order to squeeze the very most food from your small plot of land. Since your margin for error is small, it is advisable to begin a garden for experience rather than to simply buy tools and seeds for an emergency. Likewise, it is suggested that you preserve part of your harvest for the valuable practice it offers. Stored foods may be chosen as if you were on a farm using the same criteria as discussed previously, but it might be wise to plan on having more food than in either of the two foregoing examples to allow for the possibility that your yield could be much less than expected. Of course, supplies of foods you will not grow on your mini-farm should be stored in greater quantities.

If you live alone in the suburbs, an effective garden may be out of the question, even if you have the space. The demands on your time are likely to be sufficient to make gardening impossible. It would doubtless be safer to store everything you may need without depending on supplemental food.

People with or without families who live in apartments in densely populated areas would seem forced to either survive in place or have somewhere else to go during an emergency. If an alternate place to live is available of a type previously described so much the better. If not, virtually everything you might need should be stored, with a premium placed upon foods that require little water, fuel, or preparation time. Also it may be wise to select foods which are easily moved and used on the run in case it becomes possible to go to a safer area. Note that foods which meet the above criteria also spend little time on the stove and thus are less likely to reveal their presence to hungry, potentially violent neighbors.

HOW BAD FOR HOW LONG

None of us has a crystal ball with which to see the

FOOD REQUIREMENTS BASED ON PERSONAL STATUS AND NEEDS

SITUATION	CHARACTERISTICS	GOAL	NEEDS TO GOAL	FOOD REQUIREMENTS
WORKING FARM WITH FAMILY	Presently growing crops and/or raising livestock. Owner knowledgeable about farming. Farming tools and equipment present.	Self sufficiency.	Change farming emphasis from specialized to diverse. Acquire means to preserve harvested crops. Acquire knowledge of organic farming if not known.	Enough of everything to last until first crop plus a cushion. Enough supplemental foods for nonfarm grown items for a year.
SMALL NON-WORKING FARM WITH FAMILY	Owner not knowledgeable about farming—earns living elsewhere. Small garden for family recreation if present.	Self sufficiency.	Acquire knowledge of organic farming and tools to do it. Expand garden. Acquire means to preserve harvested crops.	Store everything to first harvest plus one season for a buffer in case of failure. Store supplemental foods in greater quantity.
SUBURBAN WITH FAMILY	Yard present. Owners not knowledgeable gardeners though small recreation plot may be present.	Ongoing supplemental capacity to feed.	Acquire organic farming knowledge with special emphasis on maximum yields from small plot. Acquire good hand gardening tools.	Store food items supplemental to garden supplies: proteins, etc. Store at least one year supply of all foods to allow for possible gardening failure.
SUBURBAN NO FAMILY	As above.	Limited ongoing supplemental capacity to feed.	As above.	One person will not do as well as a family at gardening so plan to store all foods needed and use whatever garden goods as grown as a bonus.
URBAN WITH OR WITHOUT FAMILY	Apartment or other habitation without land for possible garden. No capacity to raise food whatever.	Survival or escape to area capable of supporting life.	Acquire means to preserve fresh foods as they become available. Plan to acquire retreat or arrange to live on productive land during emergency.	Must have virtually everything needed to eat for as long as the emergency lasts. Special emphasis on portable foods using little fuel, water, time.

future. And yet, if survival foods are poorly matched to conditions, the result could be disastrous. In general, however, a practical level of safety should be achieved if you are equipped to survive a complete breakdown since food and equipment suitable to the worst conditions will serve less drastic situations as well.

In a complete breakdown, all food, water, fuel, and equipment needed to prepare meals must come from one's supplies or be done without. Moreover, your supplies should be carefully balanced so the entire system will not fail for the lack of a single item. For example, total water needs for dehydrated and freeze dried foods should be *calculated*—not just estimated—so that enough water will be stored to completely rehydrate the supply. Fuel needs should also be reliably determined. Lastly, maintain the capacity to resupply yourselves when fresh foods are available.

Since you aren't allowed many errors if you are to survive a complete breakdown, once you have assembled your survival kit, it may be advisable to evaluate its suitability via a weekend test. Turn off the electricity, water, and gas. Put the automobile away and resolve not to leave the home for any reason. Next, simply go on living as normally as possible. Such a trial will quickly reveal any errors or omissions which could be serious in an emergency. It will also uncover lesser but irritating oversights whose correction may make life all the more bearable at a time when everything seems hopeless.

STOVES AND FUELS FOR COOKING

In terms of cost, energy output, and reliability, the familiar two-burner gasoline camp stove is an ideal choice for emergency food preparation. However, automobile gasoline should not be stored for use in the stove for several reasons: it contains sulphur and gum which may cause malfunctions; it contains lead and other poisonous additives; it has a shelf life of no more than one year; and it isn't safe to store in bulk. Instead, plan on using specially-designed stove fuel (such as produced by Coleman) which has a shelf life of two years at the minimum, contains no additives, will not harm the stove, and is available in sealed gallon cans.

FINAL DECISIONS

When making specific selections, it would be best to give preference to familiar foods since an emergency situation would be a poor time for a drastic dietary change. Try to plan meals which are nutritionally sound to maintain health and disease resistance at maximum levels. It is true that a bit of effort is required in these decisions, but it greatly improves one's overall survival potential. Incredibly, many people spend hours and hours planning financial strategy for hard times and then rush through survival food choices with scarcely a thought. Please do not make such a mistake! In the land of the cold, the sick, and the desperately hungry, a 50 peso gold coin might get you no more than a single meal. Spent today, it will buy a huge quantity of food. Certainly, it makes good sense to properly provide for your physical survival first and *then* plan the best way to preserve one's remaining assets. ◻

NOTES AND REFERENCES

[1] Esther Dickey, *Passport to Survival,* Random House, New York, 1969.
[2] Mr. Frank Schmidt, The Coleman Company, Wichita, Kansas.
[3] J. L. Heid & Maynard A. Joslyn, *Fundamentals of Food Processing Operations,* AVI Publishing Co., Inc., Westport, Connecticut, 1967.
[4] Anthony Woollen, ed., *Food Industries Manual,* Chem Publishing Co., Inc., New York, 1970.

The author wishes to express his appreciation to Mike Hughes of Eugene, Oregon for his invaluable help with this article.

FOOD REQUIREMENTS BASED ON ECONOMIC FACTORS

CONDITION	CHARACTERISTICS	LENGTH	FOOD REQUIREMENTS
COMPLETE BREAKDOWN	Fuel, water, electricity not available. Food unavailable except for extremely limited quantities of locally-grown items. Violence rampant and uncontrollable.	Three months probably a maximum—two or three weeks more likely.	Virtually all food, fuel, water needed must be stored ahead of time.
RECURRING BREAKDOWNS	Fuel, water, electricity available some of the time but may not be counted upon. Food in very short supply: not near enough. Violence under better control than above: periodic riots followed by calm.	Condition could last several months while attempts to restore stability gradually take hold.	To be safe, all needed foods as well as fuel and water should be stored. Consider fresh food, and functioning public utilities a a bonus—don't count on them. Possess capability to preserve fresh food when available.
ECONOMIC DESPERATION (extreme depression)	Fuel, water, electricity available most of the time. Food also available but severe shortages exist with many important items especially those brought in from other areas. Violence mostly under control.	Could be in excess of a year—perhaps quite a bit more.	Store selected foods needed to supplement those available. High grade proteins likely to be scarce. Store wide selection of foods which will be needed if your income may fail.
DEPRESSION	Fuel, water, electricity available. Violence level low.	Possibly many years.	Foods are generally available in quantity. However, plan supplies for periods during which you may be out of work.

APPENDIX–SOURCES

FREEZE DRIED AND DEHYDRATED FOODS:

CDC Survival Foods
P.O. Box 485
Carson City, NV 89701

Family Securities
72 West Main
Lehi, UT 84043

Golden Survival, Inc.
2842 E. Serendipity Circle
Colorado Springs, CO 80917

Oregon Freeze Dry Foods, Inc.
770 W. 29th Street
Albany, OR 97321

Permapak
40 E. 2430 S.
Salt Lake City, UT 84115

Rich-Moor Corporation
616 N. Robertson Blvd.
Los Angeles, CA 90060

Stow A Way Products Co.
Cohasset, MA 02025

Survival USA
9019 Park Plaza Drive, Suite 2L
La Mesa, CA 92041

TRADITIONAL STORAGE FOODS:

Ross Packing, Inc.
2300 "E" Ave.
West Ogden, UT 84401

FOOD PREPARATION & PRESERVING EQUIPMENT:

Magic Mill International Headquarters (various flour mills
235 West Second South for home use:
Salt Lake City, UT 84101 electric/manual)

Mountain Valley Products (food dehydrators)
307 E. 2nd Ave.
Mesa, AZ 85201

The Coleman Company (stoves, fuel)
Wichita, KS 67201

Luhr Jensen & Sons, Inc. (smokers)
Hood River, OR 97031

Kerr Glass Mfg. Corp. (canning jars & equipment)
Sand Springs, OK 74063

SEEDS & GARDENING GEAR:

W. Atlee Burpee Company
6350 Rutland Ave.
Riverside, CA 92502

Stark Bro's Nurseries
and Orchards Co.
Louisiana, MO 63353

Sincerity and signatures aren't enough.

It's exciting to know that we got candidates on the ballot all over the nation.

But how many Libertarian candidates won?

Libertarians must do better.

I believe they can.

But not until they've learned how to develop effective advertising for their candidates and their issues. Not until they've learned how to communicate the issues in a meaningful way to the general, non-Libertarian, politically naive public.

To help achieve this end, I have developed an advertising manual that will focus on the techniques for producing this kind of advertising: *ADVERTISING & MARKETING THE LIBERTARIAN CANDIDATE.*

This manual is based on my experience on Madison Avenue with J. Walter Thompson and Grey Advertising. In five parts, it will help Libertarians who want to win public office understand the advertising process and formulate strategies that will put Libertarian principles across.

And Libertarian candidates.

Send $7.50 to:
Paul Streitz
Titanic Advertising
174 Lexington Avenue (1-A)
New York, New York 10016

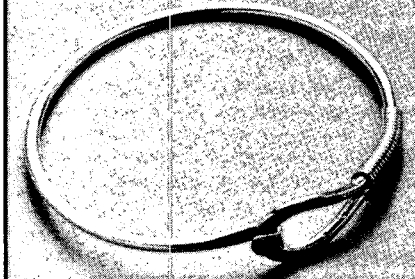
The Lady Silver Collection

FINE STERLING SILVER AT SENSIBLE PRICES

KARMA
heavy solid sterling, wear one or several together
14.95

LOVE KNOT RING
solid sterling stylishly designed a beautiful accessory
4.95

BLUE BIRD
blue and orange enamel inlaid in sterling silver
4.95



MATCHING BRACELET
classic elegance, wear it as a set or alone, solid sterling
14.95

POISON RING
genuine amethyst or obsidian (specify) set in solid sterling, secret compartment for . . . whatever!
9.95

ROMANY
simple beauty
heavy solid sterling
the perfect accessory
14.95

THE SWIRL
a beautiful design, beaten silver styled for evening or day wear
6.95

THE BAND
genuine abalone inlaid in two bands set in solid sterling
4.95

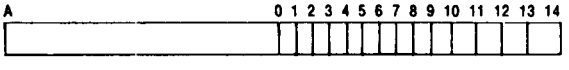
Actual jewelry is larger than shown.

BANKAMERICARD OR MASTERCHARGE WELCOME

Selection	Quantity	Cost
	Applicable Tax	$
	Postage & Insurance	$ 1.00
	TOTAL	$

IT'S EASY TO FIT YOUR RING SIZE

The measure below should be cut out at point "A". Wrap around finger where ring is to be worn. Your ring size is the number on which the "A" falls. Half sizes are acceptable.



WRITE YOUR RING SIZE HERE

Lady Silver

350 S. Kellogg Ave. #S
Goleta, California 93017

Please rush me the following order. I understand that complete satisfaction is guaranteed, or I may return the jewelry within 15 days for my money back.

Credit Card #_____

Signature_____ Exp._____

Name_____

Address_____

City_____

State_____ Zip_____

2 226 2 5 0 4 0

A Food Storage Plan is an
IMPORTANT INVESTMENT

COMPARE BEFORE YOU BUY

Food storage plans are *not* equal.

Many such programs are seriously lacking in nutrition and variety. Some claim to be sufficient for 12 to 15 months, but would only last that long as a starvation diet.

Others claim to be superior, but use inadequate packing methods. Some *imply* they have programs identical to ours for less money. *BEWARE.* They fail to fully describe their plans, plans which actually provide much less in major food groups than our supply.

CDC Survival Foods (the food sales division of Nevada Coin Exchange) has advertised in Reason and other publications for several years.

We are not new-comers to the food storage idea. We are not afraid of competitors.

We strive to provide the best supply at the lowest price. Our supply gives you, for each day of an entire year, 2,000 calories and 80 grams of protein in a well-rounded nutritional plan.

Check the comparison below between our program and that of one of our competitors. You'll agree we offer more at a better price.

Our plan *is* a yearly supply. But if you want to purchase a less adequate supply, such as provided by one of our competitors, we will sell that to you also *— for a substantially lower price.*

AS AN ADDED SAVINGS TO OUR PHILOSOPHICAL FRIENDS, Reason readers may take a special promptness discount - $20 off the list price on the CDC supply (*not* the competitor's plan) *IF YOU ORDER BEFORE JUNE 15, 1975.* Just include payment with your order, say you are taking the *REASON DISCOUNT,* and be sure your letter is postmarked before *JUNE 15, 1975.*

Recommended by Harry Browne in his best seller,
"You Can Profit From A Monetary Crisis"
and by
Harry Schultz in the International Harry Schultz Newsletter

ORDER FORM

NAME _____

ADDRESS _____ CITY _____

STATE _____ ZIP _____ TELEPHONE _____
(Trucking company will call before delivery)

PLEASE SEND:

_____ **CDC Yearly Supplies @ $439** _____
with 11 cases plus 150 lbs. of bagged Whole Kernel Wheat

_____ **CDC Yearly Supplies @ $489** _____
with 16 cases, including 30 cans (5 cases) of any combination you choose of.
☐ Whole Wheat Flour ☐ White Flour ☐ Whole Kernel Wheat

_____ **Reason Discount** _____
Subtract $20 per yearly supply ordered if mailed before June 15, 1975

_____ **"Competitor's Supply" @ $310** _____
(Similar to Rainy Day Supply — No Discount)

_____ **Stone Grinder @ $43** _____

_____ **PCP Water Purifier @ $39** _____
(Removes polluting particles and kills bacteria. Good for 1500 gallons of water.)

TOTAL COST OF ITEMS ORDERED _____

Check, money order, or other convenient form of payment acceptable and payable to:
CDC Survival Foods
P. O. Box 485, 1104 W. Sunset
Carson City, Nevada 89701
Telephone (702) 882-2483

Mastercharge Number
BankAmericard Number _____

Shipped via truck. Shipping charges payable by purchaser on receipt of food, and vary between $20 and $70 per yearly supply depending on location. We will pay the difference if shipping charges exceed $70.

COMPARISON

All cans listed below are No. 10 size (slightly less than a gallon), except as noted. Cans of similar or identical items in the same size can have approximately the same weights and contents, except as noted.

RAINY DAY	*CDC*
PROTEIN:	
6 TVP*	4 Beef TVP*
2 Pinto or Red Beans	2 Chicken TVP*
2 Split or Whole Green Peas	2 Ham TVP*
	2 Plain TVP*
2 Navy or Soy Beans	1 Lima Beans
1 Peanut Butter	1 Split Peas
1 Cheese	2 Egg
1 Egg	1 Peanut Butter
	1 Cheese
15 Cans	16 Cans

*(*TVP-Textured Vegetable Protein-Soy based Meat Substitute)*

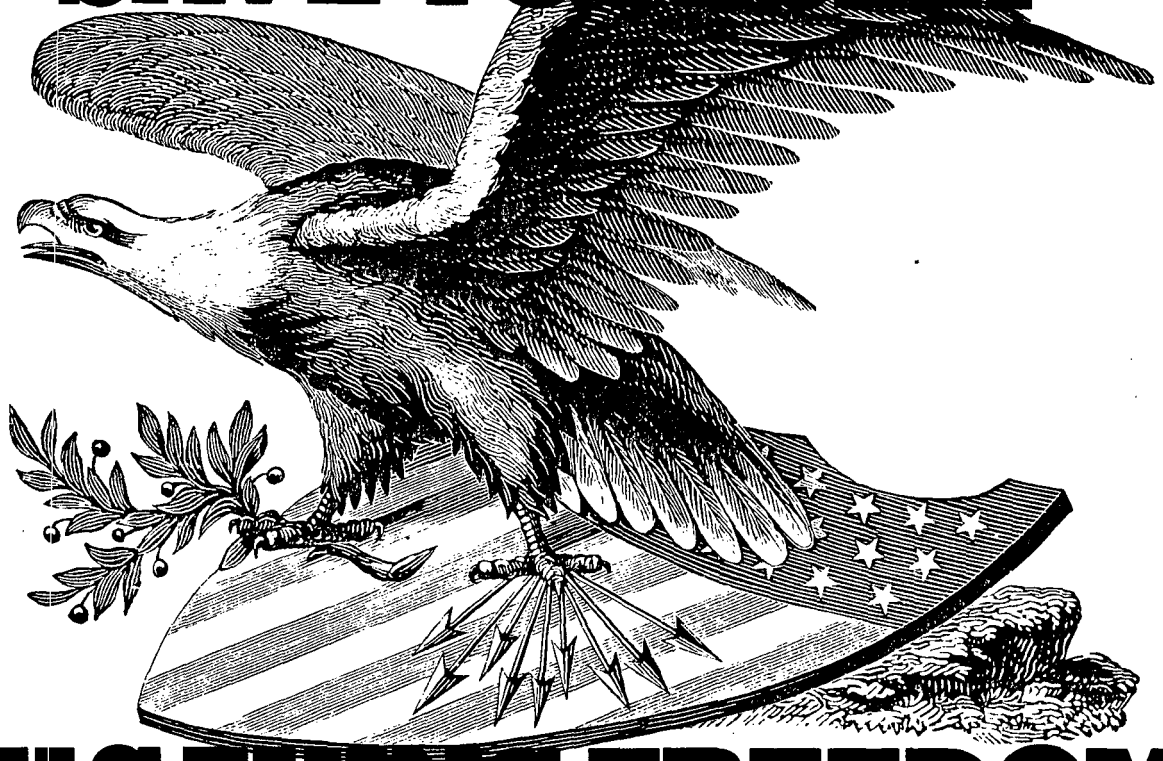
FRUITS:	
1 Apple Sauce	1 Apple Nuggets
1 Prunes	2 Fruit Mix
1 Banana Slices	1 Banana Slices
1 Dates	1 Peaches
1 Apple Dices	1 Raisins
5 Cans	6 Cans
VEGETABLES:	
2 Carrots	1 Carrots
1 Green Beans	1 Green Beans
1 Tomato Crystals	1 Tomato Crystals
1 Mixed Vegetables	1 Stew Blend
1 Celery	1 Soup Blend
1 Onions	1 Peas
6 Mashed Potatoes	1 Cabbage
	2 Mashed Potatoes
12 Cans	9 Cans
FATS:	
1 Shortening	3 Shortening
	3 Margarine
1 Can	6 Cans
SUGAR:	
NONE	2 White Sugar
	2 Brown Sugar
	4 Cans
GRAINS:	
2 Rice	2 Rice
3 Fruit & Nut Cereal	2 Cereal, Fruit & Nuts
2 Rolled Oats/Rolled Triticale	2 Rolled Oats
	1 Macaroni
1 Spaghetti/Macaroni	1 Cornmeal
1 Bulgur Wheat/Barley	30 Cans White or Whole Wheat Flour
2 Cornmeal	
1 Triticale/Hard Red Wheat	or 150 lbs. of bagged Whole Kernel Wheat
12 Cans	38 Cans for Flour Selection
+10 lbs. Sprouting Seeds	8 Cans plus 150 lbs. for Whole Kernel Wheat selection
MILK:	
12 Instant Non-Fat	12 Regular Non-Fat
12 Cans (24 lbs.)	12 Cans (48 lbs.)

(NOTE: Regular milk is about twice the yield and weight per can as Instant milk)

SUPPLEMENTS:	
2 Gelatin	1 Salt
2 Bouillon (Beef or Chicken)	1 Baking Powder
	1 Baking Soda
	1 Beef Soup Base
	1 Yeast
4 Cans	5 Cans
MISCELLANEOUS:	
1 Recipe Book	2 Recipe Books
1 Sprouting Handbook	1 "Passport To Survival"
10 Plastic Lids	22 Plastic Lids
1 Sprout Tray	

(Comparison as of April, 1975)

SAVE YOURSELF



BY SAVING FREEDOM

Murray N Rothbard

It does not seem very long ago that many libertarians were rationalizing their escape from social concerns and activity by claiming that economic crisis in America, while perhaps inevitable, was many decades in the future. If that was so, why not forget the impossible dream and take refuge in narrow hedonistic pursuits? Now that economic crisis, accelerating inflation, recession, and an approaching leap into further collectivism are upon us, these same libertarians are taking the opposite tack: what was before too early is now too late. It is too late, they cry, to save the country or the economic system; the only thing left is to hide—to store up canned goods in a cave, to hoard money in Swiss bank accounts, to buy gold coins, to run off to some new island, to ride out the holocaust. Superficially, the extreme optimist and the current extreme pessimist views seem like polar opposites; in fact, they stem from the self-same impulse: to avoid the responsibility and the burden of steady, persistent, long-term social and political activity toward libertarian goals. Both views are merely two species of the same solipsistic cop-out.

In the first place, it's not going to work. You can be darned sure that, if and when the U.S.A. goes collectivist, nothing you do is going to help. Your carefully accumulated Swiss bank accounts are going to be confiscated (the Swiss, doubtless responding to U.S. pressure, have already begun the process, in what is euphemistically called a "negative interest" policy). Your gold is going to be expropriated once again. You won't be able to defend your cave no matter how stout the rifle you use; the State has more and better guns. Your lovingly developed new island will be taken away from you by the might of one or more governments. The fact that such seizure will be a violation of international law may feed your indignation, but it won't help a bit in stopping them from taking over the island. He who refuses to lift a finger to defend liberty and property by rolling back the State will reap the fruits of that inaction and unconcern.

Professor Murray N. Rothbard teaches economics at the Polytechnic Institute of Brooklyn and is the most prolific representative of the Austrian school of economics actively working in his field. He has published many books – his monumental Man, Economy and State *is now a classic – and he is the editor of the* Libertarian Forum. *This article was originally presented as a speech in February 1975 at the Libertarian Party of California's convention in Santa Monica.*

INTER-DEPENDENCE

And there is another and deeper reason why dropping out or stashing away is not going to work. When John Donne wrote that "No man is an island, entire of itself" he was not being a super-altruistic villain in an Ayn Rand novel. He was stating a simple truth. With our current population of 200 million, we are inescapably dependent on one another, and specifically on the national and international division of labor, and the capital investment brought forth by that specialization and that market. Ninety-nine percent of us won't be able to survive in the caves or on an island; we simply cannot survive—let alone prosper and flourish—without a large-scale market, mass production, and the division of labor. When the American population was only a few hundred thousand, they could at least survive on local, small-scale, virtually self-sufficient production. We can do so no longer. For better or for worse, we are stuck with industrial production and the division of labor; we will all sink or swim with the modern economic machine. Even if by some great stroke of luck the State won't find you in the cave, your canned goods will disappear, the woods will be filled with thousands of competitors for scarce natural resources, and the pile of gold will do you no good if you can't find any *goods* to spend it on. You can't eat gold. Money is only useful for the goods it will buy, and if the goods don't exist . . .

And so I would plead with libertarians to worry a little less on what to invest your capital in, and to spend a little more time and energy to try and save our economy and our civilization. Otherwise, to use an excellent metaphor that has come into currency lately, you will only be shuffling deck chairs on the *Titanic.*

But isn't the economic holocaust imminent, and isn't any social libertarian action therefore just a waste of time? No, I don't believe so at all. First, I don't believe the holocaust is *that* near nor is it inevitable, and second—and even more heretically—even the holocaust, horrible as the prospect is, isn't *that* bad. To be more specific, we'd *still* be better off than running to the hills or hiding in the cave. No matter now bad, the remnants of the market and the division of labor will still be better for us than giving up altogether.

THERE'S HOPE

First, then, disaster is not that imminent. We are, to be sure, following down the calamitous path of Italy and Britain, but we are still some years behind them—and *they're* still not dead. We have time, and, what is more, there are strong countervailing currents that should give us great hope for the future. One of these is the enormous growth and spread of libertarian ideas throughout the country, even in influential parts of the media that most of us had long ago written off as hopeless. Precisely because things are clearly getting worse, precisely because New Deal

liberalism and statism are manifestly failing, a libertarian reaction is setting in. More and more people in all walks of life are beginning to realize the folly of putting their trust in government to solve any social problems: from the economy to postal service to education. The numbers and strength of libertarians have multiplied enormously in just a few short years. We are learning through hard experience. There is still time to save ourselves and the country.

Secondly, even the holocaust won't be *that* bad. The Germans suffered the horrors of runaway inflation in the 1920's, as did the Hungarians and other countries during World War II, but they *lived through it*—lived to recover, and grow prosperous again. As horrendous as collectivism in the Communist countries has been, the bulk of the population has lived through it, and has even begun to increase production and the standard of living. The point is that, with an industrial machine and the division of labor still intact, the economy and population could still survive through the interstices of the system. Let us never forget that collectivism, after all, is inefficient; no collectivist horror is a well-oiled monolith. And so through the interstices, through the inevitable leaks and graft and black markets, the economy is at least able to survive. The average Russian, for example, leads a grey and dismal life indeed, but it is still a better life than dying isolated in a cave.

A particularly hopeful sign is the cracking of collectivism through its very failure to deliver on its Utopian promises. One of the most exciting developments of modern times has been the steady and often spectacular erosion of collectivism and state planning in Eastern Europe. Yugoslavia blazed the path when, in 1952, it became the first Communist country in the history of that youthful movement to abandon central planning and return to a roughly market economy, with an attendant increase in personal freedom. Yugoslavia has gone further and faster in the retreat from collectivism than any other Com-

munist country, but it has also been followed by Hungary, Poland, and Czechoslovakia. Contrary to Communist hopes as well as conservative fears, collectivism is not irreversible.

Another hopeful sign is that, during the 20th century, we have tried every possible form of statist economy: from outright socialism or Communism to various forms of fascism, state corporatism, and Keynesian mixed economy. And what has become evident to all sides and in all countries is that all of these statist forms have failed! The establishments of all countries, West and East, are now floundering hopelessly in a quagmire. It cannot take very long to dawn on these countries that there is only one viable and workable system for a modern, industrial economy: freedom and the free market. The growth of libertarian ideas and influence in the last few years is therefore not simply a happy accident, bound to disappear with the next turn of intellectual fashion. It is solidly rooted in the manifest and growing breakdown of all forms of statism in the industrial world. *We* know that freedom is the only moral system; but *they're* beginning to find out that it is also the only *workable* system for the modern world. And when morality and pragmatism begin to fuse together, liberty must inevitably triumph.

"He who refuses to lift a finger to defend liberty and property by rolling back the State will reap the fruits of that inaction and unconcern."

GET ACTIVE

But the breakdown of statism is not the only condition for the triumph of liberty, even though it is a very powerful one. There is something else needed: the public and opinion leaders must *learn* of the existence of a libertarian alternative. And that is where we come in. The conditions for the spread of libertarian ideology have not been as ripe for over a century, and the need has never been greater. Libertarians have a splendid opportunity to benefit themselves and all of us, and, what is more, to advance the noble cause of morality, justice, and truth, as well as economic survival. But we must avail ourselves of this opportunity. And to do so we must *act,* act in the world; we must set aside our lotus eating and our solipsistic concerns. We must get off our duffs and make a steady, hard-working, long-range commitment to the advance of our libertarian goals and ideals. Let us be full-time libertarian activists if we can, part-time activists if we must; but let us devote all we can of our hearts and minds to the great and noble cause of advancing liberty in the real world around us. We have an excellent chance to succeed; but even if we fail, we will be able to tell ourselves and our children that we did our best, that we left no stone unturned in our devotion to liberty. Even if the worst happens, we will have the great satisfaction of knowing that we didn't lose because of our own inaction or sloth, that we didn't fail because we betrayed ourselves and our highest principles and ideals.

Action then; but what *kind* of action should we pursue? Here, again, the great principle of the division of labor is at work. There are many kinds of things that we can do, and each should pursue the form of activity in accord with his or her own abilities or interests. Obviously, no one can do everything; each person should follow whatever form of activity he is most inclined or able to do. The important thing is to follow the principle of libertarian activism.

There is another vital point about libertarian activity; *within* the principle, the particular strategic or tactical form to pursue is a strictly pragmatic problem. There is no *a priori* rule that can tell us, by philosophical deduction, whether we will be more successful by pushing the gold standard, or repeal of the income tax, or civil liberties, or any other part of the libertarian creed. *That* depends on the concrete conditions of time and place, and can even change swiftly as those conditions change. We must learn to be strict and firm on principles, but flexible and pragmatic on strategy and tactics.

LIBERTARIAN PARTY

This brings us to a question that has vexed and tormented libertarians—at least activist libertarians—for the last few years: on the merits of working in the newly formed Libertarian Party. Before 1972 there was no such party, and there was no conclusive way of deciding *a priori* whether such a party would be a feasible strategy or channel in which to pursue libertarian goals. The handful of pioneers that formed the LP three years ago have turned out to be strategically correct; for that party has grown rapidly, and has had an impact on this country enormously greater than its meager resources in personnel or finances. In retrospect, it seems clear that the LP has worked so successfully for several important reasons, despite the enormous built-in handicaps of lack of people and of funding: first, because most Americans will only act ideologically, and will only listen to ideology, in the context of political parties; and, second and as a corollary, because the LP has provided an extremely important vehicle for formerly idle libertarians to become active, to work in the world to advance their ideals, and to meet as well as to foster the development of other libertarians with whom they can mutually reinforce and inspire one another. In short, the LP has proved to be by far the best single vehicle we know for organizing libertarians and getting them active, *and* to influence the media

and the public with libertarian ideas. For one thing, the LP has garnered enormously more publicity for libertarian ideas in the course of its campaigns, than any other individuals or groups have been able to accomplish.

And so, the Libertarian Party has already proved its great merit in developing and organizing libertarians, and in influencing the "outside" world. But these are not the *only* goals, important as they are, that the LP could possibly accomplish in the future. For the LP *might* even acquire substantial and direct political influence, and thereby provide us with a tangible institutional conduit for rolling back and dismantling the State. Let us put it another way: by what *other* means could we, tangibly and concretely, ever hope to dismantle the State? Suppose that, either through the LP or through educational means, we managed to convince a large number of people, or the media, in fact even a majority. Our work would still be far from finished, for how then could we begin to roll back the State? The State is not merely ideology; it is a collection of vested interests who benefit from the exploitation of the citizen and taxpayer. The State is not going to roll over and play dead, even if the public and influential opinion-moulders turn against it. We cannot make the State wither away or disappear by the wave of an ideological wand; we must be able to translate those ideas into concrete *institutional* pressure. And the only way to do so is to garner votes and representatives that will issue the *coup de grace,* or, even before that point, to exert great political pressure from below upon the State apparatus and force it to get out of our way.

This of course does not mean that the LP is the *only* viable form of social activity for libertarians. Education, propaganda, alternative institutions, tax refusal—all have their role to play. But the actual roll-back, the actual voting for repeal of tyrannical laws, the actual political and institutional pressure from below upon the State, can only be accomplished by libertarians in politics, and concretely by libertarians gathered together in a purist party devoted to working for their goals in the political arena. A Libertarian Party is not a sufficient condition for the triumph of liberty, but it is a necessary one.

Of course, there are cogent reasons for worrying about a successful Libertarian Party—for instance, the LP might someday sell out principle for political advantage. But there are risks in any course of action, and even greater risks in no action at all. Anyone can sell out, at any time, but that is scarcely warrant for curling up in a corner and hugging ourselves in a mantle of purity as the State comes to confiscate our cave. Yes, we must, as our forefathers warned us, be eternally vigilant as the price of liberty; but yes, also, only he who dares and risks can succeed at any task, including especially the glorious task of the victory of the libertarian ideal. ◻

COMING NEXT MONTH

Recently astute political observers have noted Ronald Reagan's increasing use of the terms "libertarian" and "conservative-libertarian." Is Reagan a conservative or is he a libertarian? Next month's exclusive REASON interview with Reagan explores his current ideas and plans—and contains some surprises. Also in the issue are discussions of two controversial political/economic issues. Walter Grinder and Alan Fairgate discuss the recent proposal to revive the New-Deal-era Reconstruction Finance Corporation, and analyze the reasons why many bankers and businessmen support this dangerous kind of interventionism. And REASON contributing editor Mark Frazier brings us up-to-date on the progress of deregulation as applied to the Interstate Commerce Commission. Will Congress finally open up trucking to (relatively) free competition? The odds are improving, says Frazier.

Also in the July issue will be a review of Percy Greaves' Understanding the Dollar Crisis, Murray Rothbard's Viewpoint, John Pierce's science fiction column, and all of REASON's regular columns and features.

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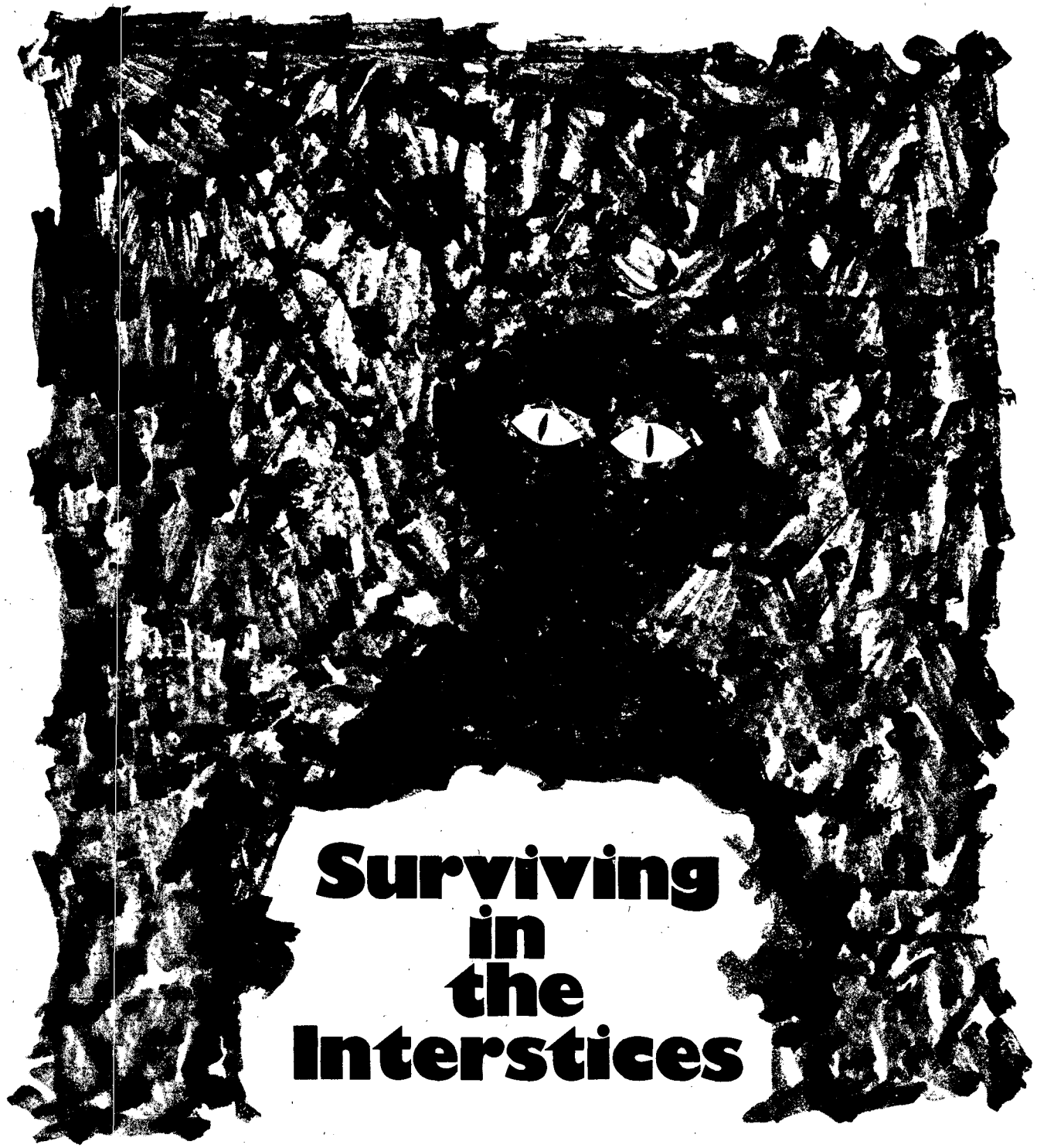

Surviving in the Interstices

William Marina

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Throughout history there have been numerous inflations, depressions, and periods of societal breakdown. Optimism, and then pessimism, have accompanied the rise and decline of civilizations. In the last decade in the United States we have witnessed just such a shift in attitudes as the abundance of the 1960's has disintegrated into shortages, inflation, and rising unemployment. From the standpoint of the historian, one of the most interesting aspects of this

"modern" predicament is the essential rejection of *history,* even by many in that profession.

It has been fashionable, especially among those who advocate social planning, to stress the new and unique aspects of modern industrial society. Rejecting the idea that history has tended to develop in cycles, and that comparisons might be made between civilizations, historians have often fragmented their studies of modern society. If these assumptions are correct then there is little that we can learn from history, which becomes mere antiquarianism.

I will proceed from the opposite assumptions. While there is much that is new in our emerging crisis, the contours of the crisis can be observed in other civilizations. Further, many of the alternatives to solving the crisis have been tried before, so that a study of the past can help us to better understand both the nature of the problem, and the probable consequences of some of the alternatives open to us.

THE CONTOURS OF EMPIRE AND FOUR ALTERNATIVES

Elsewhere I have written about this process as essentially the development of empire.[1] Empire, in its older definition, is simply the extension of the centralized, bureaucratic State into virtually all facets of the life of the individual. Later we shall look at some specifics of this process in other civilizations and in our own.

First, however, let us consider the alternatives that every individual has in *any* situation, and which are, therefore, available in the crisis of empire. One solution is, of course, death, which can be approached from several perspectives. Having written a critique of the rising menace of National Socialism, Oswald Spengler, for example, in a sheer act of will, exercised the ultimate in "retreatism," and died within a short time. Suicide apparently increases in most societies which develop into empire, and can at times take on a great significance.[2] A final variant is to create a situation, as did Socrates, which forces the opposition into committing the act and thus exposes their moral bankruptcy. Few individuals, however, will give this alternative much serious consideration.

A second alternative is simply to accept the situation as inevitable and hopeless, and thus to do nothing. This is the worst response possible. It robs life of creativity and meaning. The individual no longer lives, he only exists. Any sensitive person is bound to feel guilt over such a choice, and may finally opt for suicide as a way out, as did many of the Stoics in Rome.

A third alternative is to leave the situation; to escape from it. There have been times in history when such an alternative was both the most feasible and intelligent choice. Everyone who freely came to America opted for this "safety-valve" chance, and by its very success that option was reinforced in the minds of most Americans.[3]

There are two variants of this alternative which are much discussed by libertarians who are clearly unhappy with the present state of affairs. Because these have received serious consideration, they must be examined in some detail. One is to found a new community in a relatively "frontier" area, as, say, some libertarians hope to do on the island of Abaco, in the Bahamas. A second is to retreat in a much smaller unit—an individual, a couple, a family, or several families—into a relatively uninhabited area.

The trouble with the new community idea is that it runs into the most unique aspect of the modern crisis of empire: that for the first time in history we have empire-statism developing on a world-wide scale. Where is the area of good land and climate that has not already been pre-empted by the State? Assuming a group could find such an area and that the group grows and is successful, it will come increasingly to the attention of the State which claims that territory. The State will want to cut itself in on the action, and will not hesitate to bring force to bear—aided most likely by other nations—in an all-out effort to destroy this challenge to the State system.

In the ancient world such new communities on the frontiers were a major factor in opening up equality of opportunity and the trade associated with the development of a market. This acted to greatly alleviate social discontent. Thus the Greek colonists spread that culture around the Mediterranean as did the Phoenicians migrating to Carthage. The Roman provinces were an excellent area for new opportunity, as were the lands in southern China. In each case, however, the State either extended control to those areas, or they developed their own internal State apparatus. This is now happening to the West, to that area which Walter Prescott Webb called "the great frontier."[4]

The difficulty with a really small community, or a retreat made up of only a few individuals is that they

are even more vulnerable to attack, even by bands of robbers, who, as in empire crises of the past, may become more prominent as the problems increase. Furthermore, by its very definition, such retreatism is a viable solution for only a small part of the population. If many people availed themselves of that alternative such areas would no longer be the sparsely populated territory that originally made them appealing.

PRIMITIVISM

The most fundamental reason that retreatism ought not to appeal to libertarians is that in many ways it is a movement backwards to primitivism and away from the market. The analysis of Murray N. Rothbard in *Freedom, Inequality, Primitivism and the Division of Labor,* is very relevant to this whole question.[5] The visions of utopian, self-sufficient agrarianism have a long history. In Rome, Cato's advocacy of a return to that way of life was so pronounced that some social scientists have used the term "Catonism" to characterize this mood.[6]

"While there is much that is new in our emerging crisis, the contours of the crisis can be observed in other civilizations."

Confucius used the same arguments, and it is of interest that Marxists and radical socialists, on the one hand, and conservatives on the other, have often united in this Romantic notion of the agrarian past.[7] How long can anyone, cut off from the specialization and efficient productivity of the market, cope with the extended time and effort that would be needed to produce even the bare essentials? Would libertarians be impervious to the envy that has usually been characteristic of such low productivity situations?[8]

One suspects that most people who talk, or dream, or even follow such a solution, do so in terms of a kind of part-time basis that opens up some question of contradiction. They hope to have a retreat, but not one based upon their own production. Instead, it is to be stocked with the best that urban, technological civilization has to offer. But how long can such provisions last if there is a real breakdown? At the same time such efforts detract from the chance, while one still is in the bowels of the empire, to do something about the situation. In practice this alternative probably will almost unconsciously come to resemble the second one, of doing little or nothing to change things. In a final and complete breakdown, of course, such a retreat may make some sense. It has a great propensity, however, to degenerate to escapism in a psychological sense, that is quite the opposite of the spirit of freedom and adventure which prompted so many to come to the "great frontier."

Which brings us to the final alternative: trying to change the situation. And we ought to be candid and admit that if this can be done we will have been the first civilization in history to have turned back toward freedom and away from the empire trap. There are in essence two ways in which a situation can be changed: either by revolution, or through reform.

REVOLUTION

Let us look first at revolution, in terms of why that alternative at present lacks viability, and under what conditions it might have some degree of relevance. There is a feeling among many people, and much promoted by intellectuals, that revolutions are the work of minorities. A case in point is the widespread belief that the American Revolution was the work of only a third of the people, while a third was loyal and a final third remained neutral.[9] Supposedly based on a letter of John Adams, it is a complete misreading, for Adams was writing about American opinion *about the French Revolution.*[10] An analysis of his writings indicates that he had a rather sophisticated view of the revolutionary process and believed that two-thirds or more of the Americans supported the Revolution. "Common sense" ought to have suggested that in the polarizing atmosphere of a social revolution neither side will allow a large group the luxury of remaining neutral. It is doubtful that any of the great social revolutions in history were carried out by minorities.

Certainly advocates of the free market and opponents of statism—despite the garbled verbiage or verbal garbage of some politicians—are not in a majority in our society. The emerging crisis does offer an opportunity to increase in numbers, but it perhaps provides the extreme statist with an even more appealing argument to the effect that the real problem is that we need more government intervention.

Revolutions, or any kind of fundamental social changes, occur not just because of dissatisfaction, or a widening gap between expectations and performance, but only when there is a new basis of legitimacy capable of supplanting the allegiance to the old paradigm.[11] In the final analysis, there are only three bases upon which to construct values and thus a system of legitimacy: supernatural law, natural law, and statist, positive law.[12] While pockets of believers in supernatural law exist, it is unlikely they will ever form a majority capable of challenging the dominance of statist, positive law. We are, therefore, left with natural law as a possible source for a new legitimacy.

Natural law has always formed the fundamental legitimacy of the libertarian, free market philosophy.

The great challenge to libertarian intellectuals is to revitalize that tradition and to infuse it with a sense of relevancy which will speak to Americans in the 20th century as effectively as that great natural rights document, the Declaration of Independence, did 200 years ago. It is certainly understandable that natural law suffered an eclipse in the struggle with statist, positive law. It was often based upon a Rationalism of the dark closet, in which pure logic found no place for empiricism,[13] and the advocates of privilege found it a useful justification of the status quo. No wonder some well-intentioned reformers came to place their hopes in the State! In the present crisis, however, the gross abuses of the State must cause the honest reformer to reexamine natural law.

Science, especially ethology, biology, psychology, and anthropology, offers an empirical basis for the development of natural law undreamed of by the intellectuals of the 18th century. In the contemporary debates over homosexuality, the relationship of male and female, or the structure of society it is understandable that egalitarians should shy away from an examination of nature. It is less explicable that libertarians have not fully engaged such questions.[14] As Trevor-Roper once pointed out, a view of human nature lies at the heart of *every* social, economic, or political philosophy.[15] One of the great strengths of natural law has been that it openly bases itself upon a concept of human nature, while positive law has pretended that such an idea did not exist.

As a new paradigm of legitimacy is developed, and given the continued inability of the State to solve problems, but only to exacerbate them, it may become possible to build a majority. As long as we have a vote, revolution would be justified only if, in the face of such a majority, the minority of interests and politicians in control of the State refused to allow the role of the State to be curtailed.

REFORM

We are left, therefore, with reform as the only viable policy within the alternative of change. I have indicated above, that the first priority is to develop and articulate a new paradigm in opposition to the legitimacy claimed by the State. This will have to be coupled to political activism in opposing those now in control of the State.

It must be acknowledged, however, that in this fight the libertarian reformer faces some psychological problems not encountered by either the liberal or socialist reformer who opposes the corporate-syndicalist State.

They would like the power of the State to achieve what they see as "positive" reforms. Secondly, they have been, or are, in power in various parts of the world-empire. That the economic interests, politicians, and bureaucracy emerge still in control after such efforts tends to drive those reformers toward more extreme forms of statism.

The libertarian, if he is honest and consistent in his views, desires power in order to dismantle much of the State apparatus. Certainly, he wishes to destroy it as the basis of value and legitimacy. His minority status, and his desire to negate the State, cause him extreme discomfort as he becomes aware of the necessity to engage in political action into the forseeable future, and with few, if any, victories in sight. If he is not careful, what can result is a growing nihilism, often concealed in a preoccupation with utopian escapism.[16] This is precisely what happened to the "libertarian anarchism" of Taoists like Pao Ching-yen, who centuries ago fought the statism of both the Legalists and the Confucians in the Chinese empire.[17] The Cynics in Rome did much the same thing, and, of course, that word has come down to us as virtually synonymous with nihilism.[18]

In short, the failure to achieve a meaningful activism may result in an identity crisis. And, at the same time it is objectively obvious that inflation, depression, and social disintegration *do* exist. Perhaps one way of surviving and living with these problems lies in what I have termed "intersticism." Historically, it may be the *only* means of survival, psychologically as well as materially, open to an individual concerned with freedom, and caught in an age of world-empire.

"It is doubtful that any of the great social revolutions in history were carried out by minorities."

INTERSTICISM

Intersticism means finding ways to frustrate the power of the State, and to operate despite its existence. In some ways it is not unlike the Taoist philosophy. It recognizes that the confrontations that were possible against Leviathan in an earlier time become increasingly difficult as the power of the State increases. For purposes of illustration let me give an example familiar to many libertarians. In Ayn Rand's novel, *The Fountainhead,* Howard Roark blows up the housing project, for which he had been denied recognition as the originator, because others had changed his basic plan. He is able to convince the jury that this course of action was justified.

Suppose, however, that statism and collectivism had so permeated the society that it was evident that such an effort was an exercise in futility? This seems to be the direction in which we are heading, and it certainly was true in Rome where Caesar's power was supreme. The intersticism solution to such a problem

is told by Lucian of Samosata. The great builder, Sostratus of Cnidus, built the magnificent lighthouse at Alexandria. He carved his own name deep into the cornerstone and then plastered over it and wrote into the plaster the usual words of praise for the State and the ruler. Some years later, when both the ruler and the builder were dead, the plaster fell off. [19]

It is clear that other civilizations have gone through this growing bureaucratic statism that characterizes empire. We have a considerable amount of data on this process, especially in the cases of Rome and China. The social histories of these empires thus become for us a rich vein for the study of how to survive in the midst of inflation, depression, and societal breakdown.

In *Civilization and the Caesars,* Chester G. Starr has brilliantly recounted the rise of autocracy, complete with book burnings, secret police, and all the forms of intimidation that the State can always be relied upon to employ. [20] The parallels with our own era can hardly escape the reader. That anyone with a love of freedom could have yearned for the *Pax Romana* is sheer nonsense.

Intersticism in the face of existing State power has a similarity to belief in the market, which no one would argue has ever had the chance to operate completely free of restraints. As T. F. Carney has noted in *The Economies of Antiquity:*

> Market exchange is peripheral, but vitalizing. It occurs when the other modes of exchange have developed a sophisticated production and distribution system. As it needs to be self-regulating to work best, it works in the *interstices* [italics added] between the other two systems [reciprocity and redistribution], where it can find freedom. [21]

Elsewhere I have discussed the inflation, depression, and depreciation which fell on the middle class in the late Roman empire. Many of the best people, in a fit of depression, found suicide the only way out. Most stayed to endure the agony of empire. Some "retreated" to caves along the Rhone river and in other places which had not been inhabited since prehistoric times. Others tried to establish new communities among the barbarians where they found greater freedom than in Rome. [22]

I would like to focus, however, on the group that chose to practice intersticism, and in so doing did not end up defeated and alone in a cave, in ignominious self-inflicted death, or trying to live among an alien society. Instead, they founded a new civilization—our own. I refer, of course, to the Christians.

THE CHRISTIANS

The student of the empire crises in China and Rome is struck by two interrelated phenomena: the increasing inability of the system to cope with the crisis, not only economically, but in terms of "law and order"; and the growth of "secret" societies as voluntary interstices for bypassing the inept State. Thus the secret police could not keep people in exile in the late Roman empire as they had earlier, and the dissidents kept returning. The Roman condominium (it reached seven stories) with its one guarded gate on the first floor was a mini-fortress right in the middle of the city. Anyone who has talked to salespersons at one of our modern condominiums (as on the Florida Gold Coast) will immediately become aware that what is *really* being sold, in our present crisis of law and order, is not an apartment, but protection with a guard and television cameras stationed by the only door on a 24-hour basis.

The breakdown in the power and efficiency of the empire-keepers opens even wider the opportunities for intersticism. Into the breach thus opened up one finds the developing voluntary organizations which are driven toward secrecy by the omnipresent snooping of the State.

There were many such societies in Rome, for example. The significant question is why did Christianity emerge triumphant from that group? Given the view expressed here of the early autocratic tendencies of the Roman empire I, unlike Edward Gibbon, find Christianity a response to the decline of Rome and not a cause of its fall. [23] Neither do I find the notion that Christianity triumphed because of its other-worldly emphasis very satisfying. Other sects also took that orientation, too.

"Intersticism means finding ways to frustrate the power of the State, and to operate despite its existence."

No, Christianity came to dominate, before its own unfortunate co-optation by the State, because it developed a superior ethic based upon natural law and a superior voluntary social organization which, in true interstices fashion, simply bypassed the inefficient State. The viability of that institutional structure was a reflection of the legitimacy with which its value system came to be regarded.

It rejected suicide as unnatural, and refused to accept the status quo. One did not try to escape, but to build an interstices community. As Peter Brown observes:

> By 200 the Christian communities were not recruited from among the "humble and oppressed": they were groupings of the lower middle classes and of the respectable artisans of the cities. Far from being deprived, these people

had found fresh opportunities and prosperity in the Roman empire: but they also had to devise ways of dealing with the anxieties and uncertainties of their new position. [24]

Christian intersticism dealt with the affairs of this world. In a period of inflation it invested capital in people. In plagues and rioting it was the only group capable of providing burial for the dead and organizing food supplies for the living. Christian philanthropy was supporting 1500 poor and widows in Rome by the year 250 and large sums were contributed to ransom captives from the barbarians. Several generations earlier the State had already confessed its inability to cope with such problems. "Plainly, to be a Christian in 250 brought more protection from one's fellows than to be a *civis romanus.*" [25]

No wonder Constantine later legitimatized Christianity. The State needed it to survive, and certainly not the reverse. That co-optation, coupled with the egalitarian, monastic urge, were the flaws which would in future centuries sap the vitality of this early, individual, interstices Christianity, but its contribution to survival in an age of empire should not be overlooked.

"Libertarians can survive depression, inflation, and societal breakdown by building a community on the interstices of the empire."

WHERE ARE WE GOING, AND WHAT CAN WE DO?

There is not space here to discuss the many examples of intersticism which could be cited in the various empires in history. To examine these is to reaffirm the deep well springs of human freedom and creativity present even in an age of empire. Nor is there space to suggest the many possibilities and opportunities for intersticism in our own epoch.

That is the challenge before us. In developing such methods we not only survive materially, but gain a sense of personal worth and identity from even the smallest triumph over Leviathan. Constructing a new legitimacy based on natural law is a first step. The specifics of that society can be worked out and modified in the intersticist communities of free individuals that will emerge on a voluntary basis. These will not be in some cave or distant island, but in the belly of Leviathan.

Clearly, the movement toward mature empire will continue. The economic failures that accompany that process are already evident. [26] The failure of "law and order" is also obvious. The counter culture, which is *not* a new legitimacy, is able to hide its Patty Hearsts and indicates the loss of control and efficiency by the State. Libertarians can survive depression, inflation, and societal breakdown by building a community on the interstices of the empire. As the failures of the State become evident, and as there may be a chance to truly dismantle the State apparatus, we must beware not to be co-opted as happened to the majority of the Christians in Rome. ◻

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THERE'S MORE TO FREEDOM THAN SLOGANS

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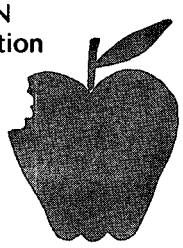

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BUSINESS SURVIVAL IN THE 1970'S

BUSINESS SURVIVAL IN THE 1970'S
BUSINESS SURVIVAL IN THE 1970'S

Eugene Guccione

"If you realize that there will always be people willing to pay to have things done, and if you're willing to find out what they are willing to pay for, you have nothing to be afraid of. You'll know that you can always strike a bargain with someone to do something—even if you're flat on your back."
Harry Browne, *How I Found Freedom in an Unfree World*

If you are a big businessman, don't waste your time reading this article. If your yearly losses run into the hundreds of millions of dollars, and if you and your management team are sufficiently incompetent, your survival is assured: Washington, if it hasn't already done so, will bail you out and keep on bailing you out.

The only purpose here is to answer one question: How can a *small* businessman or woman survive the 1970's? While it's obviously impossible to give a satisfactory answer without knowing a great deal about your specific industry, one thing at least is clear about the climate of the 1970's: it's horrible, and getting worse.

Big or small, virtually every industry today is fighting for its existence. We are plagued by a shortage of materials, of equipment, of fuels, of capital, of workers. If we solve these shortages, we are then frustrated in our attempts to build a new plant or replace an old one. If we manage to make a profit, demagogues will accuse us of stealing from consumers; and, if we do *not* make a profit and have to shut down, the same demagogues will accuse us of creating unemployment. Meanwhile, in every aspect of our business—from research and development to production, marketing and selling—we are hindered in every way by the bipartisan mismanagement and crippling controls of a government gone amok.

What can we do?

The first and simplest answer is: nothing. Why should we do anything? Why be a masochist? Nobody is forcing us to stay in business. As that great philosopher, Harry S. Truman, used to say: "If you can't stand the heat, get out of the kitchen." Those of us who can afford it (and want to), should close shop today, and take a few years' vacation. But some of us won't. And most of us can't do that: we must earn a living within the current economic context which, to repeat, is horrible.

Some businesspeople, especially those of the old school who started out their careers in the 1930's, are worried about a major credit collapse followed by a devastating depression. Yes, we'll have a depression—eventually. It cannot be avoided. But it won't occur tomorrow or next week. In the old days, you'd run

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Eugene Guccione is chairman of Mountain States Lime, Inc., and editor of Mining Engineering, *the journal of the Society of Mining Engineers. He is also a director of the Committee for Monetary Research and Education.*

out of credit when the bank refused you a loan. Today, you run out of credit when you can't borrow the interest on previous loans. (After all, like good Americans, we've been scrupulously following Mark Twain's advice for decades: "Live within your means, even if you must borrow to do so.")

Other businessmen are worried about continued inflation, and all they do is just complain about it.

I belong to a third school of thought which holds that, at least to the end of the 1970's, we'll see a more acute form of the stagflation or slumpflation of the past few years.

Briefly, let's see . . .

WHAT THE '70s HAVE IN STORE

A more severe double-digit inflation, double-digit unemployment, continued and unpredictable shortages (which will be worsened by the imposition of wage-price-profit-interest-dividend-and-rent controls), more bankruptcies, and more subsidies to big companies in distress—all these and similar events will be polluting the environment in which we'll have to operate our businesses. Let's not kid ourselves. Things will get worse before they get better, and if we admit it, we might just emerge from the ruins bruised but still alive.

You don't like to read this. And I don't like to write about it. Who wants to be a prophet of doom? But, realistically, I see nothing to feel cheerful about. Consider the inflation mess, for instance.

All inflations have a common symptom: high prices. Mathematically, price is the ratio of X amount of money per unit of goods or services, e.g., $2.95 per pound of steak, $2 per hour for a babysitter, etc. In fact, economists identify the general price level (GPL) as a time function of the ratio of the available money supply to the available supply of goods and services:

GPL = *f(t)* [Money Supply]/[Supply of Goods & Services]

Without obstacles to trade and production, the supply of goods and services would increase—and if the money supply (or its rate of growth) were held constant, we would then see at least a stabilization in the general price level and ultimately a decrease in prices. (Indeed, the history of virtually every industrial commodity is one of slowly decreasing prices across the years, thanks to technology, and in spite of government.) However, what's happened lately has been the exact opposite: the Federal Reserve System has been increasing the money supply to finance government deficits and other "worthy causes," while Congress and the Federal bureaucracy have been constantly concocting new schemes to curtail the freedom of trade and production. Not surprisingly, with the numerator of the GPL ratio increasing, while the denominator has been decreasing, the general price level has had no way to go but up—and at a much faster rate than the increase in the money supply. When *that* happens, as it has, inflation becomes uncontrollable. If you wonder why, consider the following:

The biggest single "purchaser" of goods and services is government. And it buys wholesale. The wholesale price index in 1974 rose by roughly 20 percent. If government wants to buy this year the same amount of goods and services it bought last year, it will need 15 to 20 percent more money. In fact, Treasury Secretary William Simon will have to raise in the next 16 months about $80 billion to cover the projected budget deficits for 1976. Where will government get the loot?

From taxation? No way.

From selling Treasury bonds directly to the public? Partly, but very cautiously because, as things now stand, excessive sales of government obligations to the public will drain so much capital away from the private sector that (as Alan Greenspan as so ably and repeatedly pointed out, and in vain) the resulting liquidity squeeze and rise in interest rates would totally wreck what's left of the housing industry, the equity market, and devastate all capital-intensive industries.

Conclusion: Government will continue to raise a good portion of the loot it needs by debt monetization via credit expansion (translation: by further printing of "legal tender."). *And this will pave the way to the next stupendous jump in the general price level.* Then, since nobody likes high prices, watch for the big scramble in Congress to reimpose wage and price controls, which this time will be draconian.

Except for libertarians and a handful of freemarket economists, no one wants a steady money supply —least of all business owners.

Quite aside from the fact that they'll think you're a lunatic if you mention a convertible gold standard as a solution, many business executives refuse to follow any argument that would prove why a constant money supply (or one growing, say, at a "moderate" annual rate of 4 or 5 percent, as suggested by Milton Friedman) is a necessary condition to curb inflation. You'll get for all your arguments the same warm reception accorded to a Zionist Jew proselytizing in downtown Cairo.

Though most big businessmen are so inarticulate that they can't ad-lib a belch after an Italian pizza, they do rise to lyric heights of eloquence when advocating easy money and low interest rates. After politicians, most businessmen are the best supporters of fiat money.

There'll be more shortages. Why? Simple: under ordinary conditions of State-organized plunder, a fiat currency is a claim by the government against existing goods and services. However, conditions are anything but ordinary. When a government inflates its fiat currency, the currency then becomes a claim also against *future* goods and services, a claim against values that haven't yet been produced. As a result, all sorts of shortages soon develop: the shortages of materials, of equipment, of fuels, and of capital—

which we've already seen throughout the early 1970's—plus the shortages of shelter, food, and jobs, which we are witnessing right now and that will worsen for the rest of the decade.

The shortage of jobs—or the abundance of unemployment—is usually viewed out of context, as a separate phase of the business cycle. It's called a depression, and every two-bit politician works overtime planning new expenditures to relieve the suffering of the masses. The fact is that a depression is not an isolated phenomenon, but a logical consequence of inflation. The job-shortage that occurs (as in the construction industry) is part and parcel of the government-created boom-and-bust syndrome.

So, expect nothing from government—and less than nothing from the business community.

Now that we have a picture of things to come, let's see how or if we can save our skin.

WHAT NOT TO DO

As a businessperson, your time is your most precious commodity. Don't waste it by trying to form business coalitions against this or that government agency. Tackling government is a full-time job.

Moreover, as Harry Browne points out in his excellent book *How I Found Freedom in an Unfree World* (Macmillan, New York, 1973), which you ought to read and study, "A sure way to make your life miserable is to attack the government head on. Its resources are limited, and it can't waste them tracking down every possible violator of every law. But it will certainly aim its power at anyone who *publicly* defies it .... *Don't organize.* Don't get a large group of people together to defy tax laws, promote ways of circumventing the government, or openly violate regulations."

After all, you don't want to create a big and visible target for government to shoot at. It would be better to work behind the scenes—and I can't suggest anything better than to give moral *and financial* support to the budding Libertarian Party. Let the experts do the political fighting for you: send whatever money you can to the Libertarian Party and suggest what you want done with your contribution —but don't expect results in the short term. It's still a small party, though the best that has appeared on the political horizon in a long time; and if it is successful, it *will* get government off your back.

Next. Don't neglect your psychological health (or physical health, either). Don't be brutal with yourself, in the sense of taking the rap for what ails the universe. If your business goes to pot, chances are that it wasn't your fault anyway. So, don't blame yourself for it, and don't torture yourself with futile recriminations such as "Somehow I should have done this and that," or "I should have known it," and garbage of this sort which is based on the mystical notion that "somehow" you should have been omniscient. Nobody is. In this regard, I strongly suggest you read and study Nathaniel Branden's *The Psychology of Self-Esteem* (Nash Publishing, Los Angeles, 1969); in it, Branden has an excellent section on how many people, especially businessmen and women, make themselves miserable and gather unspeakable and unearned burdens of guilt by making their sense of self-worth dependent on their success (or lack of success) in business dealings. Success or failure in business is often and largely determined by forces outside your control anyway. Real courage and strength, after all, do not consist in being infallible and never failing—but in getting up every time you fall.

WHAT YOU CAN DO

Ours isn't a "profit" system. It's a profit-*and*-loss system. We have to do two things, often simultaneously: cut costs, and make a profit.

Though not necessarily in the order outlined below, here are some common sense suggestions.

• (1) In every large city, there's a Small Business Administration office. Go there. You'll find out that SBA will provide at no cost (or nominal cost) to you the managerial talents of retired businessmen who act as SBA consultants. I have not done this. It might be a waste of time, but you could find a truly good consultant.

• (2) If you live in a small town, hire a management consultant—and, if you can, pay him only for results, *after* the results are achieved. Or, write to some school of business management for a list of texts and monographs on cost-cutting. You'll have enough bed-time reading for a year.

• (3) If your business is in manufacturing, in capital goods, bear in mind the shortage of equipment. Delivery time on new equipment is atrocious—and then, chances are that you can't afford new equipment prices anyway. So, watch like a hawk the trade journals in your industry for announced plant closings and/or for forced-liquidation sales in the used-equipment advertising sections (which are normally placed at the end of the trade journals). That, incidentally, is how I saved a bundle on equipment costs when I had to build my 1000-ton-per-day limestone crushing plant last year. You don't need new equipment. All you want is a piece of machinery that will provide reliable service for a certain amount of time, giving you that extra production capacity at minimum cost. If you're lucky, the used-equipment dealer will sell you the stuff at the going rate of junk steel—about 10 to 14¢/lb.—just to get it out of his hands. Warning: when you go on a trip scavenging for used equipment, no matter how much you think you know about a particular equipment line, take along with you a consultant. The going rate for an equipment consultant is (or was) $100 per diem plus travel and living expenses. Expensive? Hell no! It might save you from getting stuck with scrap, and

then having to haul unserviceable junk from one end of the country to the other.

• (4) Do something about those late accounts receivable. I wish I knew how to solve that problem, other than appealing to the Mafia or some such friendly collection agency. Slow receivables—to me that means: anything beyond 90 days—can throw your cash flow severely out of kilter. If you can afford it, give up doing business with slow-pokes. You'll probably earn less initially, but you'll have fewer headaches and more time to devote to (hopefully) more reliable and profitable clients.

• (5) Accounts payable: get the longest terms possible from your vendors. I haven't bought any new equipment lately, so I don't know what the terms are even in my own industry. However, Steve Trotter, a chemical engineer who heads his own manufacturing company in Ogden, Utah, tells me that his vendors now offer him 60, 90, 120 or 180-day terms. "Perhaps vendors set up such liberal credit policies just to keep their sales going and their plants working full time," says Trotter, adding that what he tells his vendors is "whenever I have the cash, I'll pay you."

• (6) Keep liquid. I totally disagree with those colleagues of mine who have no compunction about debt financing. "Money is going out of style," so goes the argument. "Blow it. And borrow some more. You'll repay in cheaper dollars anyway." This was a good line of reasoning a few years ago, when an equity market still existed and the prime rate was around seven percent. Those days are over. Today, floating interest charges can make mincemeat of your profit margins faster than you can say A is A. Perhaps the old-timers are right after all, and a depression is in the offing: in that case, if you have ready capital, you'll be able to seize all sorts of attractive opportunities and acquisitions (e.g., from forced liquidations) at a fraction of the cost. Banks are illiquid, as if you didn't know. Why waste time bugging your banker for a loan you know you have one chance in 100 to get? One final point about liquidity: this could be the ideal time to sell your company. So, lower your sights, take a lower price, and be wise enough to recognize that doing nothing and just sitting on your capital for a while—by placing it on South African gold stocks, for example—could be the best thing under the circumstances.

• (7) Mergers. Potentially a merger is a good way of pooling resources and reducing overheads—provided the merger leads to an extension and expansion of your present market rather than into a new market. But even when everything looks promising in the beginning, a merger can multiply your headaches and make your life miserable. The problems inherent in a merger are extremely complex and cannot be discussed in a brief article.

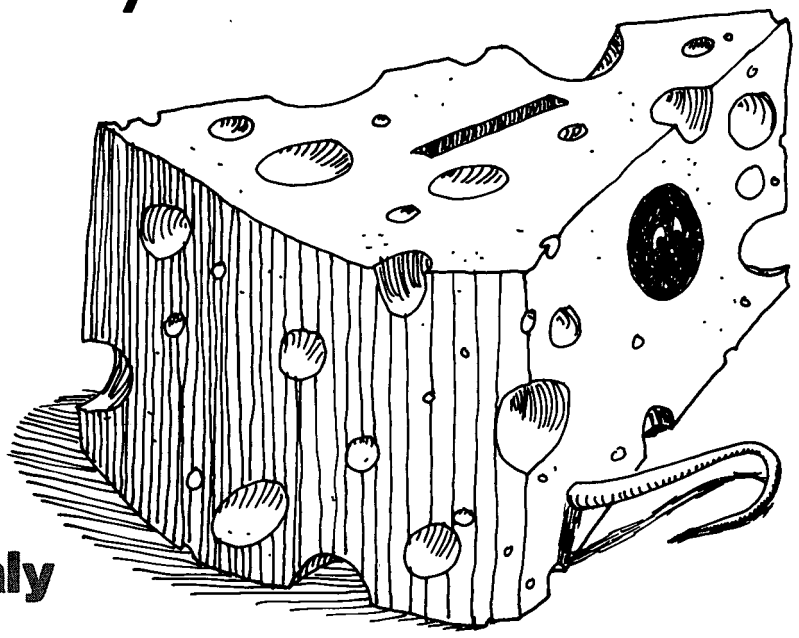
• (8) Contract for help. This is one of Harry Browne's ideas. You'll find it in chapters 16 and 22 of his delightful *How I Found Freedom in an Unfree World.* Regretfully, I cannot use it in my own business (mining), but if you are in retailing, market research, consulting, insurance, and other service-type businesses, Browne's idea should be seriously considered. In his own words, "I was operating a small business in California—burdened with payroll taxes, bookkeeping requirements . . . Social Security taxes, unemployment insurance taxes, disability insurance taxes, and income taxes to be paid or withheld. They cost me money and time, and they reduced the takehome pay of all my employees." Browne's solution? "I fired all the employees (including myself) and made contracts with each person for his services. Since I no longer had any employees, I no longer paid or withheld payroll taxes .... After eliminating all employees and contracting for services needed, the business was in the black. Those who continued to work with me made more money per hour worked, and I was able to cut *my* working time by about half." If you haven't read Browne's book, this idea alone of contracting for help (which can only be briefly hinted at here) is worth many times the weight of the book in gold. Get it. Today.

• (9) The Trotter Plan. This is one of Steve Trotter's ideas. A chemical engineer by training, Steve, 36, heads his own manufacturing company, and produces reverse-osmosis membrane modules (never mind what those gadgets are). Steve's plan works beautifully (a) if you are the sole owner of your company, or at least if your minority stockholders are either good friends or members of your immediate family; and (b) if you intend to sell the entire business. Briefly, the plan consists in borrowing from your company—instead of taking a salary—so as minimize your capital-gain tax liability when you sell your company. Let's say the company's gross annual take is $300,000 and that your profit, which you would normally take as salary, is about $30,000. If you draw that as salary, you have to pay taxes on it. But nothing prevents you from "borrowing" $30,000 annually from the company at little or no interest. It's a loan, and you don't pay taxes on it. When you sell the company, you repay the accumulated loan from the proceeds, and thus reduce the tax liability on your capital gain by the amount of your loans.

• (10) Barter. To illustrate the point. I'll relate a personal experience. It may be a way to deal with shortages of fuels and materials. Perhaps the only way—and I hate it. Anyway, my company makes calcium oxide, calcium hydroxide, and pulverized calcium carbonate. The fuel I use is coal. Because of the coal shortage last year, my money was inconvertible into coal (which upset me infinitely more than the dollar's inconvertibility into gold). Market de-

(continued on page 102)

Do you really need a swiss bank?



Raymond E Daly

There are a number of myths regarding the banking business in Switzerland.

This assertion is predicated upon my observations from the uniquely dual vantages as chairman of a Swiss bank . . . *and,* chairman of an American bank.

The Swiss banking community certainly merits much of the high respect it is accorded; nevertheless, Americans would do well to seriously consider several factors before hastily embarking on any such banking or investment relationship.

First, there is *no way* for a Swiss bank to provide Swiss bank secrecy *within the United States.* It is just not possible or feasible under existing regulations.

As an American banker, I can tell you that governmental agencies are in our bank, as well as all other banks, most of the time. They can obtain pictures or records of any documents and there is no legal way they can be denied this by any U.S. financial institution, irrespective of whether or not it is Swiss-owned.

Secrecy should not be correlated to evading taxes. There are a number of good reasons for people to require secrecy and they do not necessarily mean tax avoidance. In any event, that type of secrecy can only be provided *outside* the United States.

The second thing that should be understood about Swiss banks is—and not surprisingly so—they are in the business of making money, and as a result, brokerage and safe-keeping costs are substantially higher.

For example, on brokerage, Swiss banks tack on an additional 50 percent. If an order is executed for your account and the brokerage commission in London is 100 pounds, you will pay 150 pounds because the Swiss bank charges an additional 50 pounds as its commission.

Another myth regarding Swiss banks is their supposed large size. In fact, most Swiss banks are small, and all but the top five banks in Switzerland are about comparable to a medium-sized bank in the United States.

In today's international market, U.S. banks generally have the advantage due to size, efficiency, and association with a currency of wide acceptance.

Size is not only important in making very large loans; it also confers a competitive marketing advantage by attracting depositors who often equate safety with size—although that equation is not necessarily true, because quality is as important as quantity. The 5 largest banks in the world are based in the United States, and 6 of the top 10, 8 of the top 20, 9 of the top 30, 11 of the top 40, and 14 of the top 50 are U.S.-based. The deposits of the largest U.S. banks are nearly twice the size of their largest foreign competitors.

GREATER EFFICIENCY

Banks in the United States are probably more efficient than those abroad—a result of the much larger number of U.S. banks. There are 14,000 banks in the United States—more than in the rest of the world together! The very large number of banks in this country reflects the 19th century populist fear of centralized money trusts which has led to barriers against branching across state lines—or across the street in Chicago.

A graduate of DePaul University Raymond Daly has studied banking at the University of Wisconsin, Harvard Banking School, and Trinity College, Dublin. He received his Ph.D. in economics from the University of Lausanne, Switzerland.

The reason why U.S. banks are both more numerous and larger is because our economy is such a large part of the financial world. There are more financial assets in the United States per capita than in any other country. Demand deposits in Chicago *alone* exceed those in France.

This competitive aspect of American banks again points up the significant advantage over those in Switzerland—mainly that of price. Swiss banks are not competitive in the full sense of the word, having reached mutual agreements in respect to their pricing policies.

Therefore, Swiss banking is not for all. There are many other ways to achieve the same results, should you want to have your assets outside of the country without having to pay higher fees.

Admittedly, this may all sound very strange, a Swiss banker in effect pointing out the advantages of the American banking system, but it is a fact: you do not need a Swiss bank to maintain a portion of your assets in a foreign country.

As I previously pointed out, I am also the chairman of a medium-sized bank in the Midwest—the Bank of Indiana. For the past seven years I have lived outside of the United States and as of January 1975 I have returned to specifically develop International Money Management services for its Trust and Investment department.

It is interesting to note that I have spent the better part of the past seven years trying to convince the U.S. bank's board of directors to adopt a posture of heightened international awareness regarding financial matters.

They are all astute businesspeople, with substantial net worth and in most instances, executives who head their own major business enterprises. Yet, it was not uncommon for them to say, "I'm not buying a Mercedes Benz—what do I care if the price of gold goes up. What difference does it make to me?"

So, recently these directors passed a resolution that in effect states: "A prudent person does not put all his eggs in one basket." To my knowledge, this action now makes our bank the first in the United States which can place on an international basis up to 25 percent of the assets it manages.

ATYPICAL MOVE

This may not seem all that earth-shattering to seasoned international investors, but this has been a very difficult transition, and typical of the problems that trust departments in many banks face. A prudent person in the eyes of too many financial institutions does nothing. He waits for everybody to lead and most of all, he always tries to avoid trouble. This reasoning is based on the misguided notion that if he makes the account any money, nobody thanks him; and if he loses the account money, everybody sues him.

These banks do as little as possible; they report to you how the Dow Jones Averages have done—perhaps that it is off 16 percent, but that they instead have managed your account in such a manner that it is only off 14 percent. Have they done an outstanding job?

Well, we do not look at it that way. Instead, we are firmly dedicated to the objective of preserving one's purchasing power.

Simply stated, our U.S. bank's new philosophy is based on the premise that one's assets should be in world-wide diversification.

Off-shore, our Banque Indiana Suisse manages funds for people from 16 different countries and in each case we will not place that person's investment in their own currency. More specifically, if you are an American or a Canadian, we would keep your investments outside of North America.

We will accept only 25 percent of an individual's assets. We consider this a reasonable figure for investment in a foreign currency. Also, depending on overall portfolio positions, investors should have that 25 percent off-shore directly tied-in with the type of on-shore investments they own. If they are heavy on gold stocks or gold coins, or whatever the situation may be, the entire portfolio has to blend. As a result, all accounts are managed very much on an individual basis.

I am proud to state that the off-shore accounts we manage have all more than doubled in value in the last three years.

This performance is not quite as outstanding as it might first appear, because we have not only been dealing in gold stocks but also foreign short-term certificates of deposit.

An example: An American who opened a Swiss Franc Savings Account five years ago, at 5 percent interest, less 30 percent Swiss withholding tax, has more than doubled his money. This is the result of a shrinking dollar or the increasing value of the Swiss

franc. But, whichever way you look at it—an outstanding, conservative investment.

This is an interesting departure and perhaps we are mavericks as far as the banking industry is concerned. But, we think we have taken the blinders off. For the first time, a bank in the United States is indeed practicing prudence. The fact that American banks, to our knowledge, only invest in U.S. securities basically indicates they have not looked at the whole world in realistic terms.

MODERN TRENDS

What is realistically happening is that one of the most noteworthy postwar financial trends has been the acceleration of foreign investment throughout the free world. Both corporations and individuals have increasingly availed themselves of the sensible investment diversification possible in a stable world market.

"During one recent year net purchases of U.S. corporate securities by foreign investors accounted for a whopping 52 percent of the entire U.S. stock market!"

Leaders in this trend, of course, were many of the most prestigious North American firms such as the automotive giants—Ford, General Motors, and Chrysler. Oil, electronics, chemical and heavy machinery have followed suit. Large and small European corporations have returned the favor by making heavy investment in North America. World business has, in fact, been far more "internationally minded" than world politics.

Investment abroad has become almost a patriotic duty in many countries whose balance of payments depend to a large extent on the repatriation of their foreign profits. It is not surprising that many nations today award handsome subsidies to firms who specialize in earning foreign currency. Then one could say that fiscal isolationism, at least, is as dead as the dodo? Not quite.

Certainly the corporate sector is off and running. Even the much feared possibility of a trade war is unlikely to blunt the powerful thrust toward international fiscal interdependence. Unfortunately, private investment has not yet reached anything like its true profit potential. In the private sector the Europeans have clearly taken the lead. For decades now, almost 80 percent of Europe's most respected crowned heads and industrial leaders have considered that any truly balanced portfolio should invest at least 20 to 30 percent in North American securities. This is a figure that has been maintained through good times and bad. According to U.S. Federal Reserve Board data, during one recent year net purchases of U.S. corporate securities by foreign investors accounted for a whopping 52 percent of the entire U.S. stock market!

Yet Americans have, thus far, been shy about making their own private investments in Europe. Why? Certainly when they invest in many of the largest and most successful North American firms they are in fact investing in many world markets—but by proxy. It follows then that the old-fashioned notion that it was somehow "unpatriotic" to have private investments abroad has been shattered once and for all by America's most respected corporations themselves. Indeed, the repatriation of foreign profits, from whatever source, private or corporate, would provide a welcome lift to the U.S. balance of payments.

Why then do some Americans, as individuals, continue to lag behind in investing abroad? I feel a lack of accurate information can be the only plausible reason left. Europe, with more than a dozen languages, its different laws, plus its totally different set of investments signals, looks to be a bewildering market indeed. And the Japanese market is even more inscrutable to the average private investor of comfortable means.

It is evident that individual Asians and Europeans who wish to invest in North America have a far easier time of it. Here they find a more or less homogeneous group speaking the same language. The basis of law is similar everywhere and there is a certain measure of assured stability—usually.

Obviously, any intelligent American investor would like to do as his most gifted European cousins do—namely, maintain 20 percent to 30 percent of his own investment portfolio in high quality European and Asian securities. Certainly the American is no less aware than the European that balance and diversification are the twin cornerstones of any intelligent investment program—for industry or the individual.

In summary then, why should one invest internationally? Both human nature and political expediency strongly suggest that inflation is here to stay. Obviously, it will fluctuate greatly according to the prevailing economic climate. And, it will continue to fluctuate from continent to continent and country to country. It is fallacious to say that the grass is always greener on the other side. But today—very often it is!

Inflation corrodes and wastes away assets and money like an unseen acid. In the dissolving quicksands of inflation one must find firm but diversified foundations to escape the smothering effect of money depreciation plus the fast accelerating cost of living. ◻

Editor's Note: For those readers interested in discussing such a program with their own bank, Mr. Daly has agreed to make available a copy of his book on international investment policy. Write to: Raymond E. Daly, Chairman, Bank of Indiana, N.A., Standard Oil Building of Indiana, Suite 5108, Chicago, IL 60601.

WHY PRESIDENT FORD CAN'T STOP RUNAWAY INFLATION

. . .Most people *are* guessing wrong about inflation. President Ford's firmly voiced assurances that inflation will somehow be brought under control have soothed the public into a condition of dreamy complacency. The blizzard of optimistic press releases from the President's economic advisors have served to divert attention from the continuing inflation and its ravaging effects on the quality of your life.

But the plain and simple fact of the matter is this: *President Ford is powerless to halt, even to slow, inflation without bringing on an even more severe recession or full-blown depression.*

So what can you expect in the days ahead? Look for the dollar to continue the decline that has lost it 71% of its purchasing value since 1940. Look for any cash you may have in a savings account to lose at least 5% to 10% of its value *after interest* in the next twelve months. If you are invested in common stocks, expect them to do as badly or worse. If you are depending on a pension, annuity or on Social Security for your retirement years, expect to be counted among the worst victims of the 1970's inflation. Be prepared for severe fuel, food and other commodity shortages in the months ahead. And if you have not made plans that anticipate the rioting and social turmoil that could grow out of such conditions, understand that you are taking grave risks with your safety and your family's.

Inflation Plus Recession

Professor Murray N. Rothbard, one of the world's leading free-market economists, and a noted social philosopher, describes the economic prospects for the future in this way:

> "What we face nowadays is a recession of a new type: an inflationary recession or depression which combines the worst features of the classic boom and bust. We face periodic declines in production and increases in bankruptcy and unemployment but *along with* continuing inflation. . . there is nothing more certain in this world than the prospect of continuing inflation in the short-term and the long."

The next few months may offer the last chance you will have to provide for the safety of your family and yourself and to secure your assets—whether a few thousand or several hundred thousand dollars—against the financial and social storms ahead.

The Inflation Survival Letter

During his ten years as publisher of *Human Events*, America's most widely read conservative newsweekly, *ISL* publisher Robert Kephart had become increasingly convinced of the need for a publication such as *ISL*. He was fortunately able to draw on *Human Events'* vast sources of confidential information in upper circles of government, finance and industry, to publish a newsletter that would not only help you to understand the causes of the present conditions but would also give you *down-to-earth advice* about how to protect your assets in today's inflation-recession climate and show how to provide for the safety of your family in the event of a breakdown of the social order.

And every indication is that *ISL* has filled an urgent need! Since January 1974, over 70,000 individuals—some with assets totalling high into six figures, others living on small fixed incomes—have subscribed to *ISL*. Hundreds of letters are on file telling us that until *ISL* came along there was no single publication written in simple, non-technical jargon that could be depended on for so much truly useful information.

A Sampling From *ISL*

Here is a sampling of the kind of stories that have appeared in recent issues:

- **Speculative Versus Solid Inflation Hedges:** (The pros and cons of owning gold and silver coins, gold and silver bullion on margin, gold mining stocks, foreign currencies, currency futures, art objects and antiques, real estate and undeveloped land. Why each may be good or bad for a particular investor and pitfalls to avoid in buying and selling.)
- **Golden Opportunities In Costa Rica and Canada**
- **Where Is My Money Safe—Should I Use A Swiss Bank?**
- **How To Use Tax Havens To Avoid Capital Gains Tax**
- **Will The Dow Hit 500?**
- **Food Today For Hungry Tomorrows**
- **How Small Investors Can Now Buy Treasury Securities**
- **Storing Valuables At Home**
- **How The Coming Credit Collapse Will Affect You**
- **How Inflation Affects Your Pension, Tax Plan, Trust Fund, Social Security**
- **A Smart Way To Stock Your Freezer Against A Lightning Disaster**
- **Pitfalls And Opportunities In Buying A Home In An Inflationary Climate**
- **Do's And Don'ts On Stock Commodity Options, Margin Buying, Short Selling**
- **Common Sense Guidance On Choosing, Buying, And Stocking A Rural Vacation "Hideaway" In Case Economic Turmoil Brings On Civil Disorder**

ISL In A Nutshell

Here are some good sound reasons why *you* should join *ISL*'s 70,000 subscribers:

- *ISL is fast reading;* a one-step reference source that organizes vast amounts of facts, how-to-do-it and where-to-find-it information in a compact, easy-to-read format so that you can understand exactly what is happening on the investment and economic front, what is likely to happen tomorrow and what to do about it!
- Each issue of *ISL* brings you the insight and advice of the very finest economic writers and monetary and investment experts in the country. Men like Henry *Hazlitt,* Oakley R. *Bramble,* Murray N. *Rothbard,* Col. E. C. *Harwood,* Donald J. *Hoppe,* Sen. James A. *McClure,* Rep. Steven *Symms,* Donald I. *Rogers,* Hans F. *Sennholz,* John *Chamberlain,* Percy L. *Greaves,* Douglas *Johnson,* Alden Rice *Wells,* Charles *Stahl* and many many others.
- An exclusive *ISL* feature in every issue: Don Stephens' "Personal Survival" column written by America's number one expert on selecting and buying rural property, stocking dehydrated and other food supplies, alternate energy and heating sources, and similar topics.
- *ISL* is an *important* publication especially in light of the critical economic and social dislocations that surely lie ahead. You will be aware of its value again and again throughout the year as *ISL* arrives to bring hard facts and fresh views of the continuing economic and social chaos facing this country.
- It is *inexpensive* compared with similar letters. You could subscribe (as we do) to over 100 investment advisory services and related publications and pay (as we do) over $5,000 a year for the privilege. But only *ISL* digests and condenses the most crucial insights and the soundest advice from these publications and from a variety of confidential sources inside government, finance and industry and presents it all to you in a compact, non-technical newsletter format.

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This indispensable guide to inflation-depression economics is Oakley R. Bramble's plain-spoken, non-technical introduction to economic survival *today*. It explains how we have come to the brink of economic catastrophe—and exactly what we can expect will *really* happen over the coming years to common stocks, real estate, precious metals, credit, U.S. and foreign currencies and the cost of energy. It lists addresses and prices for dozens of recommended publications, where to write for free catalogs, where to order books and tapes concerning financial survival and a selected bibliography, addresses of Swiss banks, and much, much more.

It clearly describes the four perils that face every person in the world today. It advises how to *defend* yourself against the possibility of a disaster if you are well-to-do. . . and how to prepare yourself and your family if you are *not*. Above all: *it tells you exactly what events, news stories and government actions to look for as signals that we are in the final stages of runaway inflation—depression—sky rocketing unemployment—social unrest—hungry mobs* hell-bent on taking what they want because they have nothing of value with which to buy or barter!

The *"Inflation Survival Manual"* may be the most important reading you do this year—perhaps in the next *ten* years. If you have a fortune, this guide may *save* it for you. If not, it may help you *make* a fortune.

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This indispensable manual brings you the kind of advice that would cost you hundreds, perhaps thousands, of dollars if it were given in seminars or in private consultation. I want you to have it *FREE* as a Charter Subscriber to the *Inflation Survival Letter*. If you ever decide to cancel your subscription your full payment of $20 will be immediately refunded and the *"Inflation Survival Manual"* will be yours to keep for the trouble! We would not make such an iron-clad offer if our experience had not shown that the great majority of those who subscribe to *ISL* find it indispensable.

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Inflation Survival Letter

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How To Use Options

Victor C Chigas

History has shown through the ages that options were used by astute individuals. The Phoenician and Roman merchants would underwrite the expense of a sailing ship with the "option" to participate in the cargo upon the ship's return. Options were used in Holland during the great boom of the tulip bulb craze over 300 years ago.

Options are used daily in real estate transactions. Let us suppose Mr. Schmidt wants to sell 100 acres of land for $20 an acre or $2,000, and will take a 10 percent option deposit ($200). Mr. Able believes he can sell the parcel of land to Mr. Wolf for $30 an acre or $3,000. Mr. Able would not want to buy the property if he is unable to sell it to Mr. Wolf for $3,000. If, during the agreed period of time, Mr. Able was able to consummate the sale to Mr. Wolf, he (Mr. Able) will exercise his option to purchase the parcel of land from Mr. Schmidt and in turn sell the land to Mr. Wolf. The net difference between the option deposit ($200) plus the cost to purchase the land ($2,000) and the ultimate sale at $3,000, is Mr. Able's profit ($800). If Mr. Able has been unable to complete the sale to Mr. Wolf, the option would have lapsed and the loss would be limited to the cost of the option contract —$200.

Victor Chigas is an option specialist with Drexel Burnham, having specialized in options since 1968. He has lectured before Ohio, Illinois, Pennsylvania, New Jersey and Indiana State Convention business groups and was a guest speaker at the National Pre-Arrangement Interim of America Association. Funds presently managed by Mr. Chigas & Associates (Mr. Richard Konst and Mr. Robert LeClercq) are in excess of 10 million dollars.

The only difference between the above and a stock transaction is that the deposit on real estate is generally used to reduce the purchase price. In the case of the stock option, the premium ($200) is received immediately upon the acceptance of the terms and is not part of the agreed price of the underlying security.

In the case of the stock option if the price of the underlying security has risen to $30 a share during the agreed time the option would have been exercised with the buyer paying the holder of the security $20 a share and selling the security in the open market for $30. The net profit would have been $800 on a $200 investment.

OPTION GROWTH

For well over 100 years European investors have been using stock options. The option as an investment tool has been used by large and small investors alike.

Until recently the variation of stock options, put, call and straddles, strips and straps has been limited to the wealthy individual investor, institutions, and professional traders. However, there has been a dramatic change. The average investor has discovered he can participate and benefit from options. An outgrowth of the average investor's desire has been the establishment of two Federally regulated option exchanges: the Chicago Board of Option Exchange (established in April of 1973) and the American Stock Exchange Option Market (established in January of 1975).

Total option volume in 1942 was 685,000 shares. In 1960 volume increased to 8.5 million. The total number of options traded in 1974 was estimated to be a staggering 57 million! Stock options are a versatile investment tool.

Let's look at who's involved in an option transaction and their objectives:

Buyers: — Individuals or institutions seeking bigger profits on a small investment.

— To hedge against a stock investment already made or to be made. A form insuring your investment choice.

Seller: — An opportunity to increase the return on invested capital.

— Reduces the cost of purchasing stock.

— Offers by the amount of the premium, downside protection of a stock investment.

— In considering the statistics over an extended period of time only about 40 percent of the stock options are exercised.

Let's follow an option transaction beginning with the review of the underlying stock. The stock meets the qualifications of the investors and is paying a dividend of five percent. The stock is selling at $50 a share and a $2.50 per share dividend. At the time of purchase, February 1st, a six-month and ten-day option is available expiring on August 11, 1975 for a premium of $600 (12 percent of underlying stock). Consider these alternatives:

1) Buy stock and sell a call for $600 using the premium and purchase securities for a net invested capital of $4,400. Dividend return on invested capital is 5.68% ($250.00 yearly dividend divided by $4,400 = 5.68%).

2) Purchase stock and do not sell the option—net invested capital of $5,000.

If the stock remains the same during the option period:

1) The option will expire giving the option seller a return of 16.47% (Premium $600 plus dividends of $125) on invested capital of $4,400.

2) The holder of the stock received the dividend ($125) for a return of 2.5%.

If the stock were to drop to 44:

1) The seller of the option would not have lost any money due to the option premium ($600) and would

have a return of 2.8% (dividend of $125 on invested capital $4,400). Another option could be sold for approximately $535.

2) Buyer of stock would have lost $600 of capital and the return of 2.5% ($125 dividend on invested capital of $5,000) and must wait for a 13.6% increase in the stock (44 to 50) to break even.

If the stock were to rise 20 percent or to $60 a share:

1) The writer of the option has limited his profit to the premium $600 (16.47% on invested capital of $4,400).

2) The stock buyer has participated in full ten point gain in underlying stock or 20% on the invested capital of $5,000.

The safety of reducing your investment capital to $4,400 and the ability to employ someone else's assets ($600 premium) far outweighs the capital gain difference of 3.6 percent. The use of margin on the above transaction will change the percentage and increase the risk.

The effects of dividends, splits, rights, or warrants vary with the listed options (Chicago Board of Option Exchange and American Option Exchange) and those traded off the exchange. The listed option buyer is not entitled to the cash dividend declared during the life of the contract; all other benefits are the same.

In the case of a buyer of an unlisted option, if during the option life a cash dividend is declared, the striking price will be adjusted downward to reflect the actual amount of such dividend. All other splits, rights, and warrants issued during the life of the option accrue to the holder (buyer) of the option.

Individuals who write options will occasionally find a stock, in which a call has been sold, has appreciated substantially by the time the option term is expiring. The option seller is able to convert short-term to a long-term gain. To illustrate: 100 shares of XYZ Co. has been purchased at $40 a share and simultaneously a six-month and ten-day call is sold on the security for a $600 premium. On the day the option expires, XYZ Co. was selling at $70. If the original 100 shares XYZ Co. were delivered at $40 against the call, the option seller would have a long-term capital gain of $600 minus commission. If the option writer had already realized a considerable amount of short-term gains for the current fiscal year, he could convert these gains to long-term.

First—Sell the original 100 shares of XYZ Co. purchased at 40, six-month and ten-day call prior, at the current market 70.

Sold 100 XYZ Co.	$7,000
Bought 100 XYZ Co.	4,000
Long term capital gain	$3,000

Second—Buy new stock at 65 (current market) and deliver against call.

Bought 100 XYZ Co.	$7,000
Sell against call 100 XYZ at 40	4,000
	$3,000
Less premium received from sale of call option	600
Short-term loss	$2,400 Loss

The option seller uses the $2,400 short-term loss (excluding brokerage fee) to erase the short-term gains realized from other transactions, while in the meantime establishing long-term gain. It is important that the above sequence is followed. You must first make your sale to establish the long-term gain, then new stock can be purchased and delivered against the exercised call.

The tax consequences for the option buyer and seller are intricate and your tax counsel should be consulted for a final opinion.

OPTION TERMINOLOGY

OPTION:	Privilege of buying or selling 100 shares of a certain stock at a specified price over a stated time period.
PUT:	Option which allows the Holder to sell 100 shares of a certain stock at a stated price to the Maker during the option period.
CALL:	Option which allows the Holder to buy from the Writer 100 shares of a certain stock, at a specified price, during the option period.
WRITER:	The Seller or Maker of an option
BUYER:	The Holder or Owner of an option
STRIKING PRICE:	Stated price at which the option can be exercised. Usually the market or last sale price at the time the option is written.
PREMIUM:	Cash amount for the option paid by the Buyer to the Writer.

GOLD OPTIONS

In the past three years gold securities have proven to be an exciting adjunct to a rather dull market place. Until recently option availability in gold securities were not marginable. Because of these factors, the premium on these securities was quite high, ranging from 15 to 25 percent. Imagine: purchasing a gold stock at a low price, seeing the price move rapidly upward, not wishing to sell right away and wanting to invest some of the profit in other securities. Then an option could be sold. The premium could be used to protect your investment should there be a downside correction of short duration. The premium funds could be used to invest in other securities, thereby broadening the investment base and protecting your assets. Dividend income is increased by the new securities. If you were so inclined an option could be sold on the new security, thus compounding your return.

The ramifications of an option program are varied and the opportunities are great. The intelligent investor must be able to use every investment tool to seek a greater return on his invested capital. Options are not new. But are you new to options? ◻

You can profit from penny gold stocks

Norman A Lamb

Penny gold stocks have a very special and distinctive characteristic that is not shared by other vehicles of gold investment. To properly understand this characteristic is to give yourself special advantages and opportunities for profit.

To see why this is so we must compare conventional gold investments with penny gold investments. Conventional gold investments are bullion purchases, or stock purchases of foreign and domestic producing gold mines—the " blue chip" mines. The difference between the conventionals and the penny golds is the difference between the *known* and the *unknown* and this translates into a propitious time delay with unusual consequences and possibilities.

When an appropriate gold price has been achieved, two important things will be known about the conventionals: (1) the proper *price* for each of the conventionals, and (2) the short *time* needed in which to reach that *proper price.* The *opposite* is true of penny golds. The penny gold stocks are exploration companies and after the reaching of the proper gold bullion price, the proper price for penny gold stocks will be unknown (and unknowable) and the time it will take for them to achieve their proper price will be unknown in any particular case.

Assume that tomorrow the price of gold were suddenly raised to $300 an ounce. We would know, and know instantly, the proper price for a 10 ounce bullion brick. The price of common gold coins reflects two values: (1) the gold content value and (2) the premium value. Gold coins have a premium value over their gold value for various reasons which include—they are beautifully engraved, are portable, are easily secreted, have guaranteed and known gold content, come in small denominations facilitating their use for exchange and increasing their accessibility to those of small means, and have incurred a manufacturing expense.

Roughly speaking and in quiet times, these coins generally carry a 30 percent premium. After the gold price rise, I would estimate that the market would take about three or four weeks to settle on the proper premium—discounting such things as political stability, economic stability, the extent that gold ownership has been legalized, and the extent that newly minted

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Norman A. Lamb holds an A.B. in Social Science and Philosophy from Sacramento State University. He is an authority on domestic penny gold stocks and Western gold mining history. Lamb is the author of Small Fortunes in Penny Gold Stocks *and its* Supplement *and a contributor to and Associate Editor of the* American Gold News. *He is an officer and director of several private and public gold exploration companies and a member of mining associations and professional organizations.*

coins might enter the market.

After the gold price rise, it should take about three months for the market to properly price the producing gold mines. The tug and pull of the market would establish a generally accepted price/earnings ratio, maybe 15 to 1. Simultaneously, the market would anticipate the earnings by integrating such factors as ore reserves and plant capacity. There might be wild gyrations during this process, but after three months the price movements would settle down and reflect known values.

If gold were raised tomorrow to $300, what would happen to penny gold stocks? I would estimate that this price gyration, percentage-wise, would roughly approximate the movement of the blue chips. In 1973 when gold moved from $65 to $127 and then back to $100, the percentage movements of the penny golds roughly approximated those of the blue chip golds. If six months after our presumed gold price rise, we looked back and determined that the blue chips had increased in price fifteen times, we could anticipate that the penny golds had done *about* the same.[1]

THE NEW BALL GAME

But six months after the assumed gold price rise something significant has happened. The ball game is over for the conventionals, but it is a long way from over for the penny gold exploration companies. The price for bullion has been fixed, the price for coins has been set, and the prices of the blue chip producers are now strait jacketed within the narrow range of accepted price/earnings ratios. (If a company's earnings divided by their outstanding shares equals $1 per share, and if the accepted price/earnings ratio for this industry is 15 to 1, then a share will sell for about $15.)

But what of penny gold stocks? They are not confined by a price/earnings ratio because they have no earnings. They have no earnings because there is no production and no production because there is no proven ore. The whereabouts of the gold is unknown, and there will be a time delay in discovering it.

The penny gold top will come *after* the blue chip top. The penny gold top will come *after* a series of spectacular gold strikes and *amid* widespread publicity of fortunes made by a few penny gold investors. My best estimate is that the strikes and resultant widely disseminated publicity will come two to five years after the proper gold price rise.

Why the delay? The explanation is simple and relates to the nature of mining exploration companies. It takes time. For one thing, exploration is expensive and few of the present owners of gold exploration properties have sufficient capital to underwrite an exploration campaign. If money is raised by the issuance of newly authorized shares it would probably take a year for the stock issuance to be prepared and clear the Securities and Exchange Commission and local state authorities. It would probably take another three months to sell the shares.

Should the company decide not to raise risk capital but rather to lease-option the property to a larger company, even more time would be required. There presently are few mining companies prepared to enter into exploration contracts with the property owners. Very few are geared up to go into the gold business and the few there are would be confronted with many exploration offers. Selecting between the various properties would take considerable time and preliminary analysis.

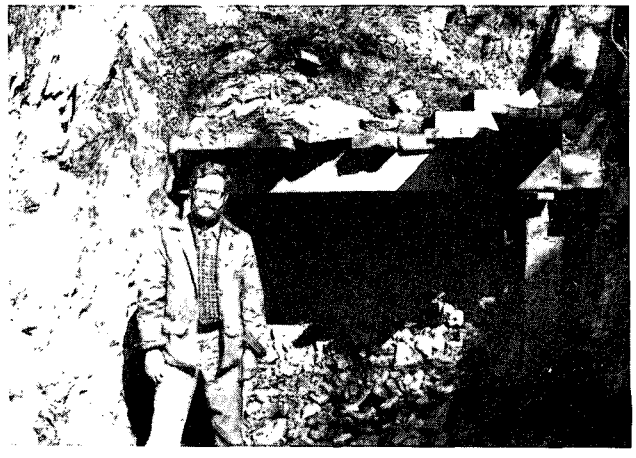
Exploration itself, once begun, consumes time. The initial prospecting is modest followed by careful evaluation of results. These evaluations may lead to abandonment or extensive drilling. This in turn must be analyzed and interpreted and may lead to all-out drilling or a change in exploration strategy. A successful exploration program could easily take 12 to 24 months.

THE DELAYED EXPLOSION

But when things begin to happen you can expect spectacular fireworks. Obscure, tedious, dull and time consuming exploration effort can suddenly pay off in spectacular results. A gold strike! Several months later and at a different property—another gold strike! After two or three strikes then comes the gold fever and there is no fever like gold fever.

The affected companies see their shares jump in price 100 to 1000 times. The public suddenly realizes that the gold rush is not over; that there are fortunes yet to be made. Most of this public didn't make a penny in the previous gold price rise to $300 because they were ignorant of gold and had not invested. They had heard many stories of the big money that had been made by others, filling them with vain regrets and lingering envy. But now their past envy only fuels their present greed. On they come and jump into the penny gold stock market with both feet.

Meanwhile back at the mine—how are the blue chips doing? They would still be languishing in the price/earnings strait jacket of yesteryear. Since the hypothetical gold price rise of, say, two years ago, the



blue chip gold index may have advanced five percent. But in all probability the penny gold index has now increased 10 to 20 times, caused by gold fever buying.

THE SECOND CHANCE

There you have it—the penny gold postman will ring twice. There is a second chance, a second wind. The adage that opportunity knocks but once doesn't apply to penny gold stocks. You can advantageously close the barn door after the horse is out or corral the cat after it is out of the bag. No need to cry over spilt milk.

I do not know, nor have I ever heard, of a similar investment situation where you can wait until *after* the big news release and *then* profitably invest. This almost never happens since the market very quickly discounts such straightforward news. This time delay stems from an inescapable fact: *the market cannot discount what it doesn't know. The market cannot discount undiscovered gold.* Couple this with the fact that later gold discoveries will be made which in turn will trigger the special and exceptional psychology of gold fever, and you have a truly unique investment situation. The degree to which you exploit this situation is limited only by your own resourcefulness.

No one can predict how high the price of gold will go in the next year or two. If you haven't bought penny gold stocks and if the gold price appears quite high at the time you read this, you will naturally be concerned whether the present "high" prices of gold stocks have discounted the high bullion price. That is, "Is it *too late* to buy into the penny golds?" For reasons explained in this article it is not too late. For penny gold stocks, "too late" will probably arrive two or three months after two or three spectacular strikes in gold country. These strikes will occur two to five years *after* the attainment of the proper gold price.

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VARIATIONS ON A THEME

In this article I have idealized the happenings to clearly illustrate the point of the delayed, second-move characteristic of penny gold stocks. In real life, events may unfold somewhat differently than our idealized events. But if you understand the principle involved you can make accommodations to changes in circumstances.

For example, the final price for gold may be rather low—such as $125 (unlikely). In such an eventuality the penny gold top could come five years later since there would be much less inducement to perform the exploration necessary to the making of gold strikes. On the other hand, if the price were $500 the added inducement could cause strikes within one year.

Also we assumed in our example the making of a *gold strike,* that is, a sudden discovery of abundant gold. In real life, the realization of the presence of commercial ore could unfold slowly over a period of several months as the data became increasingly persuasive. A sudden discovery could cause a 100 to 1000 price move in a few days or weeks. An unfolding discovery could stretch out the time of the price move to three to six months. But the same large price move would be made in either case, with about the same amount of gold fever.

We further assumed the gold price rising to be done overnight. In reality it might take a series of price moves over an extended time. But the principle is the same. When the price of gold gets high enough it will induce exploration which will cause gold discoveries which will cause price increases in exploration companies. These price increases will not be shared by the blue chip golds hemmed in by accepted price/earnings ratios. ◻

NOTE

[1] The movement of penny gold stocks only *roughly approximates* those of the blue chip gold stocks—with the penny golds being of greater volatility. In a great and sudden bull market we would expect the penny golds to increase in price more times than the blue chip golds.

A way to indicate volatility during any time period is to note the difference between the high and low for the stock and express this difference as a percentage increase from the low. For example, if the high were 30¢ and the low were 10¢, then the difference is 20¢ and this is 200 percent of the low.

During the first six months of 1974, ASA had a volatility rating of 42 percent and Homestake 40 percent for an average volatility for these blue chips of 41 percent. During the same period the average volatility of the penny gold stocks on the Spokane Stock Exchange and Over-the-Counter was 143 percent.

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THE ROLE & VALUE

John Exter

One of the few controversies among free market economists concerns the "gold question." Monetarist economists identified with the "Chicago School" have tended to minimize the importance of gold in the monetary system, and to disparage it as an investment. In contrast, Austrian economists and their many followers among investment advisors have emphasized gold as both the ultimate money and the ultimate inflation hedge.

Last October 16 these two points of view shared the same platform, in the persons of economists Milton Friedman and John Exter. The occasion was the Third Annual Monetary and Trade Outlook Conference, sponsored by the International Monetary Market (IMM) of the Chicago Mercantile Exchange. The spirited exchange of views between Exter and Friedman has already become something of a classic. REASON is pleased to present it to our readers (with permission of the IMM).

John Exter has had a long, distinguished career in the world of finance. He has served as acting chief of the Far Eastern Section of the Board of Governors of the Federal Reserve System, Division Chief for the Middle East with the International Bank for Reconstruction and Development, and vice president of the Federal Reserve Bank of New York. He was formerly a senior vice president of the First National City Bank of New York.

I have felt for the last 15 years as though I have been watching a prolonged Greek tragedy. The players are the principal financial officers of our government and our central bank. The theme of this mid-20th century tragedy is the attempt to substitute paper for specie, paper money for commodity money, particularly gold. There have been many attempts in the past but this surpasses all others in its audacity and in its scale. In its audacity because it has been mounted despite the failure of all others. History told us that this one had to be a failure too. A tragedy. In its scale because all others were in single countries, individual currencies. This one is worldwide, in all countries, all currencies. Inflation everywhere. It has even embraced the International Monetary Fund set up after World War II to restore and preserve a stable exchange-rate system based on the convertibility of paper money into gold at $35 an ounce. The Fund violated its basic purpose of promoting exchange-rate stability when it permitted itself to become the vehicle for substituting paper gold for gold—the most preposterous attempt to substitute paper for gold that the world has known.

Why this attempt in our generation? I think it was the experience of the Great Depression. I remember it well. Most economists blamed it on the rigidities of the gold standard. We were "crucified on a cross of gold." They argued that we could have prevented it if only we had printed more paper.

I think it was the other way around. Central banks in the 1920's, particularly our own, printed *too much* paper. They did not accept the discipline of the gold standard. Instead, they used the gold exchange standard which allowed them to use the same gold twice. Also, the British made a costly mistake. They restored the prewar value of the pound in 1925 at too high a value, a value that did not take into account the enormous expansion of sterling debt that had occurred during the war. It brought depression, unemployment, the dole; so in September 1931, they went off the gold standard, floated the pound, and naturally felt an immediate sense of relief. The experience made gold a four-letter word in Britain. If we had printed more paper after 1929, depression would have been postponed but worse when it came.

THE KEYNESIANS

Two schools of thought based on paper money grew out of this experience. The first was fathered by John Maynard Keynes in the 1930's. The Keynesians called the gold standard a barbarous relic, said it made no sense to dig gold out of the ground in South Africa and put in back in the ground in Fort Knox.

Keynes assumed a closed economy, one

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F GOLD: 2 VIEWS

Milton Friedman

With respect to gold, I am delighted that U.S. citizens will be able to own, buy, and sell gold. I have always been opposed to the prohibition of private ownership, purchase, and sale of gold. I have always thought and argued that the introduction of that prohibition in 1933 was wholly unjustified. There never was a monetary justification for prohibiting the private ownership of gold. Private ownership of gold was prohibited in 1933 because the Federal Government was planning to raise the price of gold from $20.67 an ounce to $35 an ounce and it wanted to make sure that no private individual profited from that rise in price. It was solely a desire to prevent private profits and not any more fundamental monetary reason that led to the prohibition of the ownership of gold. On that score, I believe John Exter and I are in complete agreement. Where we differ is on precisely what we regard the gold standard as being.

The most important distinction is between a real honest-to-God gold standard and a pseudo-gold standard. A real honest-to-God gold standard is one in which people use gold as money, in which, when you buy something you hand over an ounce of gold—or some other amount—and when you sell something you receive an ounce of gold; in which, if paper circulates, it is in the form of literal, 100 percent warehouse receipts for gold.

A pseudo-gold standard is the kind that we had, particularly from 1934 to 1971. A pseudo-gold standard is one in which the government fixes an official price for gold. That's not an honest-to-God gold standard. That's a program for fixing the price of gold, and it is strictly on a level with the programs that the government has adopted for fixing the price of wheat or any other commodity—it is a price pegging program. It is not a true gold standard because it is a situation under which what people are actually using as money are pieces of paper and in which the only relation between gold and those pieces of paper is this promise to pay $35 an ounce.

John Exter says that until August 15, 1971, the paper money was a promise to pay gold. That is not so. Paper money did not carry on its face the statement that "I owe you" something. I found in my pocket (fortunately) a $20 bill dating back to Series 1963E signed by Henry Fowler. That was before the 1971 date, and if you look at that money, it is a Federal Reserve note. It says, "This note is legal tender for all debts public and private," and it says on the back of it, The United States of America, In God We Trust, the White House, $20.

There is nowhere on this piece of paper "I O U Gold." Before silver was completely demonetized, there were pieces of paper saying "I owe you a dollar in silver." There were gold certificates. "I owe you an ounce of gold," but those became illegal for circulation in 1933. From that date to this, the paper money which has been issued has at no time whatsoever been a promise to pay gold to any private individual in the United States.

The U.S. did have a commitment to peg the price of gold for central banks, it did have a commitment to buy gold at $35 an ounce from central banks and to sell gold at $35 an ounce to central banks. What happened in August 19, 1971, was the closing of this gold window. The only mistake was that it should have been closed much earlier. We should not have had that commitment at any time.

The difference between a pseudo-gold standard and a true gold standard is that under a pseudo-gold standard, there is

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Milton Friedman is Paul S. Russell Distinguished Service Professor of Economics at the University of Chicago, and a member of the research staff of the National Bureau of Economic Research. He writes a regular column for Newsweek *and is the author of numerous books and articles, including his well-known* Capitalism and Freedom. *He has served as an economic advisor to both Barry Goldwater and Ronald Reagan.*

EXTER *(continued from page 86)*

with no transactions with the outside world. In this 20th century interdependent world of rapidly growing trade, unequal distribution of resources—particularly energy—and massive foreign exchange losses, it was an unrealistic and devastating assumption for economic thinking. It made Keynesians think primarily of the domestic economy. The balance of payments became something apart, to be dealt with later. They have treated it recently with benign neglect, the tragic present-day heritage of that 40-year-old assumption by a famous economist.

Keynesians became strong government interventionists, especially through deficit financing and easy money, debt expansion by government and the Fed. If expansion created problems requiring more interventions they did not hesitate. They embraced a whole long string of them, including interest-rate controls, exchange controls, import and export controls, even wage and price controls. Most of all, they promised we need never have another depression. One Keynesian, Walter Heller, as Chairman of the Council of Economic Advisors, even talked of "fine tuning" our enormous American economy. He wrote me recently that he meant "*gross* tuning." But the point remains.

The Keynesians ignored the debt problem that their expansionism created. They argued that debt did not matter, that we owed it to ourselves (a typical closed economy argument, by the way), that it could go on and on growing because in total it never had to be repaid. As we read of Penn Central, Rolls Royce, and Franklin National, we begin to see that it *does* matter!

THE MONETARISTS

The second paper money school, the monetarists, led by my distinguished friend, Milton Friedman, came later. In most areas of economic life, Milton is a strong noninterventionist, as I am. He has no equal as an eloquent and persuasive defender of the tradition of Adam Smith and the benefits of free markets and laissez-faire. But in money, which he says matters most, he would have government intervene strongly. I have never understood why he makes money an exception. I agree it matters most, but for that very reason I regard money intervention as the most pervasive, mischievous and dangerous of all government interventions, the more so because its mischief can be so long delayed. He defines money as paper —paper currency notes and paper bookkeeping demand deposits—and admonishes the Federal Reserve to intervene, principally through open market operations, to increase this paper money supply at a certain constant rate, a rate with a magic I have never understood. He argues that constant expansion of his paper money supply will produce continuous economic growth and, like the Keynesians, says we need not have another depression. He does not, as far as I know, promise fine tuning.

"I have felt for the last 15 years as though I have been watching a prolonged Greek tragedy."

He has not seen the need for convertibility of paper money into gold at a fixed price. In fact, he would have the treasury slowly sell off its gold stock in the free market. He does see, and very clearly, that without gold there can be no fixed exchange rate system. In fact he has long advocated floating exchange rates. So in foreign exchange he is a noninterventionist; the dollar should be left to fetch what it will. Like the Keynesians, he focuses primarily on the domestic economy by way of the domestic money supply. In international transactions, he relies on the forces of the marketplace. This smacks, to me, of a closed economy model, like the Keynesian.

I differ with both schools of thought. In my view, advocates of paper money do not look carefully enough at what money is.

MONEY

Economists do not decide what money is. It is people, like us, in the marketplaces of the world. It is we who decide what money we are going to use and hold. Even governments cannot decide, although they may think they can by declaring paper legal tender and prohibiting the holding of gold.

Money serves three functions. First, it is a means of payment, second it is a standard of value—we quote prices in it—and third it is a store of value.

The store-of-value function is by all odds the most important function of money. If any kind of money does not serve as a good store of value, it cannot survive. It will ultimately cease to serve as money. We want money to be a good store of value because we work for it. That is what the hue and cry about inflation is all about. It is the reward for our labor, our enterprise, our imagination, our thrift, our initiative, the employment of our capital and our lands. Scarcity and desirability are the keystones of store-of-value money. Paper standing on its own feet cannot serve as a good store of value; it is far too abundant. It can only be a good store of value if it is kept scarce, and as a practical matter the only way to keep it scarce is to keep it freely convertible into some scarce commodity like gold at a fixed price. That, to me, is the nub of it, the whole point of the gold standard.

Before President Nixon closed the gold window, gold performed all three functions. It was the only ultimate means of payment among countries. It was the standard of value. The entire monetary system, or most of it, was tied to gold at $35 an ounce. And, of course, it was the best store of value. Since the closing of the gold window, no kind of money has performed all three functions. Paper currencies are being used as a means of payment and standard of value, but they are not serving as a good store of value. They are all losing value day by day in terms of goods and services in the marketplace. Gold, on the other hand, has been driven out of circulation among central banks by Gresham's Law—"Bad money drives out good"—that's a simple definition—so it no longer serves as a means of payment, even among countries. And it is no longer a standard of value because paper in terms of gold fluctuates in world markets minute by minute. The $42.22 official price is no more than a bookkeeping entry. It still serves, however as the supreme store of value, the best humankind has found in all of history.

Paper money under the gold standard is promises to pay, I O U's. Before Nixon closed the gold window on August 15, 1971, each dollar said, "I owe you gold at $35 an ounce." The "you" was, at that time, any central bank. Since that date, the dollar says, "I do not owe anybody anything in the way of good store-of-value commodity money at a fixed price." It has become an I O U-nothing; indeed, so have all currencies. Through the International Monetary Fund our governments tried to substitute paper gold, the Special Drawing Right, or SDR, as the principal international reserve asset. But the SDR is not a promise to pay anything; it does not even have an obligor. So it is not even an I O U-nothing; it is a who-owes-you-nothing? And with no fixed maturity date it is a who-owes-you-nothing-when?

August 15, 1971, was a watershed date. We went from a world of fixed exchange rates to one of floating exchange rates, to a world in which our dollar I O U-noth-

ings trade in foreign exchange markets, at different rates, minute by minute and hour by hour, against the I O U-nothings of all other countries.

We tried to reestablish the fixed exchange-rate system at Smithsonian in December 1971, but without basing it on convertibility as it had to be, so Smithsonian broke only a little over a year later.

A floating exchange rate world is a no-pay world. An oil producer, like Saudi Arabia, has no alternative but to run a dirty float and accept dollar I O U-nothings for its oil. If it did not, the Saudi Arabian riyal would, of course, go through the roof. So the central bank of the 8 million Saudis now holds well over 10 billion paper dollar I O U's in its reserves and they are climbing month by month. What is it to do with them?

A floating-exchange-rate world becomes basically a world of competitive exchange rate depreciation which means competitive monetary expansionism, which, of course, means competitive inflation.

DEBT MODEL

It also means a world of unbridled growth of debt. To me, this is by all odds the most serious problem of all. My emphasis of it is a key difference between Milton Friedman and me. So, I am going to give you my model. It is a debt model and is quite unlike the Keynesian and Friedmanite models.

Please think of the monetary system of the entire world as an upside-down pyramid. The pinnacle becomes the base, and the base is gold, gold in the vaults of the central banks. Everything above that gold base is paper, a vast complex of paper I O U's, of debtor-creditor relationships, not only within the dollar but in all currencies and across all currencies as well.

So this is an open, not a closed, economy model. It includes every central bank in the world, every currency, indeed all debt, and therefore all debtors and creditors, in the entire world. Under the gold standard all creditors in the pyramid can, through markets, freely convert the I O U's they hold in any one currency into I O U's in any other currency at fixed exchange rates, and into gold at the base at a fixed price.

The pyramid's shape is another way of saying that as the pyramid grows, debt grows faster and faster, at an exponential rate. So the bigger the pyramid, the faster debt grows. Today's pyramid is by far the biggest in history, far bigger than the one in 1929, and the fastest growing.

How did it get that way? The serious trouble, as I see it, started in the early 1960's when our Federal Reserve began to increase its own debt, its note and deposit liabilities, at a more and more rapid rate. Look at the curve of Federal Reserve credit and you will see what I mean. You all know that the Fed creates note or deposit liabilities whenever it acquires an asset. The principal asset acquired has been United States Government securities. The growth of Federal Reserve debt stimulated the growth of dollar debt throughout our system. New Fed debt provides excess reserves to member banks, so they can then expand their debts. But others expand, too: savings banks, savings and loans, governments, all of us. Anyone can create debt as long as he can get someone else to accept his I O U. You make the pyramid grow each time you use a credit card.

"New debt without equivalent saving means more purchasing power."

Expansion of debt also spread to other currencies because, under the fixed exchange-rate system of the gold standard, foreign central banks bought our dollars to prevent their exchange rates from appreciating or upvaluing; thus the gold exchange standard grew. It is a pity. If they had observed the discipline of the gold standard and converted those dollars into gold, the growth of the pyramid would have been checked at the very beginning. As it was, their massive dollar purchases caused debt in their own currencies to expand and made the pyramid grow the world over.

Much debt was created without saving. There is no act of saving when our Federal Reserve buys a billion dollars of U.S. Government securities by creating a billion dollars of deposit liabilities on its books.

A continuously expansionist monetary policy stimulates debt to grow faster than production. It is a relatively simply economic proposition that debt in general must be serviced and repaid from rising production and rising productivity. But when central banks underwrite rapid growth of the pyramid, debt grows faster than production. It can then no longer be serviced and repaid out of rising production and rising productivity.

PAYING UP

But even today debt in general still continues to be paid. The smooth functioning of our economy, of our entire economic system, depends on it. We must all pay our debts.

If debt is growing so much faster than the economy, how in the world does it get paid? Only because the Federal Reserve banks, indeed all central banks together create more of their own debt each year than in the preceding year, and so stimulate more rapid growth of debt throughout the dollar, and the world, economy. In other words, the Fed must stimulate and underwrite the creation of enough new debt each year to enable old debt to be serviced and repaid by new. It underwrites a massive operation of borrowing from Peter to pay Paul. Ever more Peters must be found to lend to those who have to pay the Pauls.

As the pyramid grows, however, the Peters become harder and harder to find and must be given bigger and bigger incentives to lend in the form of higher interest rates. So interest rates rise far above the rate of increase in productivity (the prime rate recently was in the 11.5 to 12 percent area). The cost of servicing the debt rises, too, adds to the demand for credit (borrowers must borrow more just to pay interest), and contributes to the growth of the pyramid.

New debt without equivalent saving means more purchasing power. You get it when you borrow to buy a house or car, or use your credit card. The growing purchasing power makes the economy press against available resources, then prices of houses and cars, and also costs, begin to rise—inflation. It may cost you half again as much to build a house today as it did 10 years ago, so you must borrow half again as much. Inflation, like rising interest rates, adds to the demand for credit and stimulates faster growth of the debt pyramid.

The debtors in the pyramid do not all go into debt at the same rate. Some stay liquid, others borrow too much. You may array them in the pyramid according to their liquidity, with the most liquid debtors down near the gold base. Most liquid of all would be anyone who held only gold and had no debts. As you go up the pyramid, the debtors get less and less liquid, so the least liquid are at the very top, those who have borrowed short term and lent long term, particularly at fixed interest rates, and more particularly, across today's floating exchange rates. As the pyramid grows, the number of illiquid debtors grows too, and also the proportion of illiquid to liquid debtors.

The money supply is only a tiny slice of this debt pyramid, only the note and demand deposit liabilities part that serves as means of payment. I think it can be more important at times to watch the turnover of that money rather than to watch the supply itself. I am reminded of when I joined Citibank about 15 years ago. Demand deposits turned over about once a week. Today they turn over more than once a day.

Money supply also neglects the Eurodollar market. Yet it is a most important part of the pyramid. I suggest that it is far more important today to watch the Euro-

dollar market than to watch the money supply. In fact, to look at money supply alone is like putting blinders on an open field runner in football.

DEFAULTING

The pyramid can continue to grow only as long as the Peters have confidence in the illiquid debtors at the top. But rising interest rates make the illiquid debtors ever less liquid. They get caught in a massive liquidity squeeze and have more and more difficulty borrowing and paying their debts. Then they begin to default or fail.

Central banks were the first to default. They became so preoccupied with keeping debtors in their own currencies alive that ultimately they could no longer redeem their own liabilities in gold. The first partial default came in March 1968, when they closed the gold window to private people; and the complete default came in August 1971 when President Nixon closed the gold window to other central banks. So the international monetary system broke first. The gold standard ended and we entered a world of floating exchange rates.

Central banks are still trying to keep debtors in their currencies alive.

Until now, our authorities have had to deal only with a Penn Central here and a Rolls Royce there, and they have succeeded in containing each big failure by finding new Peters in the system. When Penn Central failed, other large corporations could not roll over their commercial paper, so the Federal Reserve suspended Regulation Q ceilings through 89 days and widened the discount window. Commercial banks found new Peters in the CD Market and they in turn became the Peters for the illiquid debtors in the commercial paper market. So Penn Central was contained.

To contain the Rolls Royce failure the Federal Government became a Peter and guaranteed $250 million of Lockheed bank credit.

The Franklin National Bank failure had to be contained by the lender of last resort, the Federal Reserve itself. As the ultimate Peter it lent $1.77 billion first to Franklin National and then to the Federal Deposit Insurance Corporation. So the failure was contained and the debt pyramid continues to grow, but with more difficulty.

Our authorities have only postponed the problem, not solved it. There is an ever growing number of illiquid debtors at the top of the pyramid. Many cannot possibly pay, so we face the inevitability of debt liquidation, not just in the dollar, but in many currencies. We are in the last act of the play and it must grind to its tragic end. More paper money cannot avoid it.

HYPERINFLATION

This is a decidedly unpleasant prospect. Debt liquidation is painful. History shows it comes in either of only two ways. The first I shall call the hyperinflation way. Every central bank wants to keep its part of the pyramid growing, for to falter would precipitate failures. So our Federal Reserve, indeed all central banks, are locked into an expansionism they dare not stop, prisoners of their own expansionism. They must try to keep illiquid debtors in their currencies alive, or at least prevent failures from snowballing. To succeed, they must create ever more of their own I O U-nothings until ultimately they become worth nothing as they say they are. Then all debt denominated in them becomes worth nothing, too. All debt is liquidated, and the authorities must start over again either with a new currency or by knocking zeros off the old. I have seen three German marks in my lifetime and may live to see a fourth. Even the youngest among you has watched President De Gaulle knock two zeros off the light French franc to convert it to a heavy one, and I have a Brazilian 10,000 cruzeiro note overstamped 10 new cruzeiros in 1967.

"Confidence is suspicion asleep."

Many central banks will succeed in going the hyperinflation route, particularly those whose currencies have few illiquid debtors. Brazil, for example, has experienced inflation for so long that no one lends a fixed amount of cruzeiros long term. Everything possible is indexed, given monetary correction for inflation. There are no long-term bonds, long-term mortgages, or long-term life insurance contracts, as we know them, in Brazilian cruzeiros. Long-term cruzeiro contracts have long since been paid off with cheap cruzeiros. So the cruzeiro economy is a current-account economy—a cash-and-carry economy. It is on a payday-to-payday basis. There are few or no illiquid debtors. No one lends a fixed amount of cruzeiros long term. I often say any Brazilian peasant knows better how to live with inflation than any chairman of a New York bank. With virtually no illiquid debtors, the central bank of Brazil can easily avoid a squeeze on illiquid debtors and go the hyperinflation route.

But in currencies in which there has been a great deal of long-term lending, and particularly a great deal of borrowing short and lending or investing long, and more particularly across these floating exchange rates, the problem of keeping the debt pyramid growing becomes enormous. If you think of the Brazilian cruzeiro at one end of a spectrum—a currency with few illiquid debtors—you may think of the dollar as being at the other end, with by all odds the most illiquid debtors. We have hundreds of billions of dollars of long-term bonds, mortgages, life insurance contracts, pension commitments, cross-currency loans, and so on outstanding, and the long term lending still goes on.

FED'S PROBLEM

To go the hyperinflation route our Fed has the most formidable job of any central bank. It must bail out not only the Franklin National Banks in the domestic-dollar market, but also all of the illiquid debtors in the Eurodollar market, and they are legion, plus even all the illiquid central banks, like the Bank of Italy, if it is to keep the dollar pyramid growing, a task that boggles the mind.

I am not at all sure the Fed sees the problem clearly, and even if it did, does it have the statutory authority, or could it get it, to do the job? To illustrate, the Fed can readily bail out Franklin, or branches of any American bank in the Eurodollar market, for their head office would have access to the Fed, but could it bail out a Herstatt (a German bank) under the jurisdiction and control of the Bundesbank? One wonders whether the Fed even knew the dimensions of the Herstatt problem when it surfaced.

So the entire monetary system is in this massive liquidity squeeze, but the squeeze is already far more intense in the dollar than in any other currency and will become even more so at some point. Rising interest rates will cause a failure that cannot be contained and it will snowball. The most vulnerable spot that I see is the Eurodollar market, though it need not start there or even in the dollar; no one can know. The question is, when? It depends on confidence. I have often said that confidence is suspicion asleep. Suspicion in this case is not like a tiger in the jungle that awakens at the snap of a twig: it is more like a big roomful of people, of Peters, all of whom have been drugged for years and years with paper money economies, plus a constant battery of statements by governments that we are demonetizing gold, phasing it out of the system.

I wonder whether we have ever thought that the Federal Reserve System is the most perfect gold-standard system that has ever been invented. I have been spending my New York Fed dollars in the Chicago Fed district at par. All Federal Reserve notes circulate at par; we should ask why. The reason is that all of the Federal Reserve banks settle among them-

selves, in gold certificates, which are warehouse receipts for gold, day by day, through the Inter-district Settlement Fund. So they never have significant balance of payment problems among themselves. If the gold were sold off, could the Federal Reserve System continue to work?

For the time being the system keeps finding new Peters. The oil producers are now the principal Peters, but more and more they are the central banks themselves, as in the case of Franklin. The former are reluctant. They lend their billions in the Eurodollar market, much only at 48-hour call. When the Peters awaken, net debt liquidation will begin, at least in the dollar. Inflation will turn to deflation, so even oil prices will come tumbling down, and the Fed will find itself pushing on a string. In the most intense part of the squeeze, dollar interest rates will go to new highs and the dollar will become, by all odds, the strongest currency. A few currencies may follow the dollar pattern, like the Swiss franc, but I should expect most to go the hyperinflation route.

WHAT TO DO?

What should our authorities do? There is little they can do. That is the tragedy of it.

In the last act the painless choices are gone. They talk of slowing inflation, but, as a letter writer recently said, that is like trying to prick a balloon gradually.

My own answer is irrelevant because no one listens, but I give it to you in broad terms. We need less government intervention, not more. More will only make matters worse, especially in money, the continued creation of paper I O U's. We must have debt liquidation of the deflationary kind if the dollar is to survive as a currency. I would free the economy of all possible controls and let market forces do the job. It would be a drastic operation, like removing a cancer, but the patient would recover faster and live, and live better. I would free us to make contracts in gold in the hope that we might ultimately—years later, after the debt liquidation—get back to the gold standard.

It will not go that way. Keynesian interventionism will prevail, government debt will be expanded to offset the contracting private debt, and every effort will be made to arrest the debt liquidation and get the pyramid growing again.

What do *you* do? For you it is easier. I suggest you go down the pyramid and remember gold is at the base as the enduring store of value money. In my view, we are in the greatest rush out of paper into gold in all of history. If I am wrong about my forecast of deflation, and inflation continues to hyperinflation of the dollar, the price of gold will go to infinity. Then, of course, it would obviously be good to hold. But if I am right, the precise course of the gold price is more uncertain, though in the end I am confident gold will be as good a hedge in deflation as in inflation.

In deflation, many dollar assets lose value. Some even disappear, like Penn Central commercial paper, or Franklin National Bank stock, so the Peters seek safety rather than a high return and some will find it in gold. Moreover, in deflation government changes its attitude toward gold. After all, our government holds the largest gold stock in the world and will want a higher price to restore the liquidity of the Federal Reserve, not a lower one. And remember, if you hold gold in the ground in such an environment, mining costs would fall.

Finally, remember that we are in an open-economy world and inflation is likely to continue in many other currencies, despite deflation in the dollar. Their holders will want to store value in gold as much as dollar holders. The gold price will not rise continually. No price ever does. In fact, during the transition from inflation to deflation, I am not sure what people will do. As commodity prices start to tumble, gold could tumble, too. But you should not get butterflies in your stomach. You will need to take the long look. ◻

FRIEDMAN *(continued from page 87)*

extensive government intervention to maintain the price of gold and I am opposed to such intervention. I am opposed to a price-fixing program that fixes the price of gold, just as I am opposed to government price-fixing of wheat or oil or of anything else.

TRUE GOLD STANDARD

On the other hand, I have a great deal of sympathy for an honest-to-God gold standard. A world in which you had an honest-to-God gold standard would have many desirable qualities. Its greatest virtue would be, of course, that if it could exist, there would be no government intervention into the process of creating money. There would be a discipline exerted by gold.

But such a gold standard has never existed, and will not and cannot exist under the present circumstances. Every time a gold standard like that has been started, it has been destroyed, and it didn't take the invention of paper to destroy it.

The record of history is clear. A few years ago when I was writing an article for the *Encyclopedia Britannica* on the history of money, I was reading up on Roman monetary history when the chief coin was the denarius which was originally 100 percent silver. The process at that time was not to substitute paper for gold but to substitute copper for silver. I read about how, emperor after emperor, the denarius was depreciated; it was mixed with more and more nonsilver alloy. It was the same size coin, but instead of being silver, it was mixed with other things. I remember very well the sentence which said, "Until finally in the reign of Diocletian the once proud denarius became little more than a copper coin washed with silver."

That was just about the year in which the U.S. Government was converting its silver quarters and half-dollars into copper coin, except that instead of washing them with silver, they washed them with nickel. So it didn't take the invention of paper to destroy gold standards. The process I described happened over and over again. It is not an accident. Gold is a very expensive money.

If you are going to use gold as money, people have to dig gold out of earth in one part of the world in order to bury it under the earth somewhere else. There is a strong incentive for people to try to avoid that process, and that's why they add fiduciary elements. That's why all gold standards deteriorate into credit standards, and that's why you cannot really have an honest-to-God real gold standard.

There was more of a chance of a real gold standard, and there was a close approximation to one in the 19th century; but in the 20th century, with the emergence of governments as they have, the possibility has become even less. Now, I deplore the emergence of those strong governments. I would like to see them weakened, but we have to talk about the world as it is and not the world as it might be. There is little point in recommending a policy for the U.S. that might have worked in Great Britain in 1730. We have to recommend policies for the U.S. as the U.S. is today. As the U.S. is today, I do not believe that there is any possibility that a government will accept the discipline of gold, that it will in fact give up its authority to print money. I believe that we nonetheless have to discipline governments. The question is, if we cannot discipline them through gold—because the mythology of gold does not exist, because the public opinion which would back

government in accepting the discipline of gold does not exist—then how can we discipline them?

DISCIPLINE

The only way I have ever been able to see to discipline them is by adopting a mechanical rule to which they are required to adhere, provided it is a rule that can be checked on. That is why I have always been in favor of a rule under which the monetary authorities would be required to increase the quantity of money by five percent per year every year, day in and day out—week in, week out.

Of course, I would go much further. I have long been in favor of abolishing the Federal Reserve System. I don't want *any* discretionary action. I am in favor of a 100 percent reserve system, a completely automatic system administered by a minor bureau of the Treasury which would see to it that the quantity of money increased at a steady rate. But it seems to me unwise to say that I am only willing to recommend whole hog. You have to recommend in pieces. We have a Federal Reserve System, and pending our being able to persuade people to make major reforms, we have to push less extensive reforms. That is why I have always proposed a fixed rate of growth in the quantity of money.

Before I get to the rest of what I really want to say, let me comment on one other matter. John Exter is wrong as a factual matter in his interpretation of the Great Depression. The problem was not *before* 1929, as he indicates; it was *after*. He said that before 1929, in the 1920's, the U.S. central bank did not accept the discipline of gold. That's true. They did not accept the discipline of gold, but in the sense that they created *less* money than the gold standard called for. If the U.S. Federal Reserve System had accepted the discipline of gold, the quantity of money would have been increased much more rapidly from 1922 to 1929 than it was. Sometime in 1925, for example, the Federal Reserve System adopted the explicit policy of paying gold coin and gold certificates over its counters in return for paper money in order to reduce the officially calculated reserves on their books. They did this to enable them to get away politically with a policy of a slower rate of expansion than the gold standard would have called for. If the Federal Reserve System had operated on the rules that John wanted them to in the 1920's, there would have been significant inflation in the 1920's which there was not. The price level in 1929 was lower than it had been in 1923.

When it comes to the Great Depression, the problem was that the Fed went out of its way to destroy money. It did not follow the rules of the gold standard. On the contrary, as I have already said, from 1920 to 1929, the quantity of gold reserve accumulated by the United States would have justified a much more rapid increase in the quantity of money. In 1933, the gold reserves held by the United States were higher than they were in 1929. But the total amount of money was one-third lower. In four years, the Federal Reserve followed a policy that destroyed one-third of the amount of money in the country. That's why we had the Great Depression.

The Great Depression was produced by monetary mismanagement by the Federal Reserve. It was produced, not by their timorousness in printing money to paper over debt; it was produced by their recklessness in destroying money, in reducing the quantity of money, and those are the facts about the Great Depression. You may interpret those facts as you want, but you have to face up to those facts and not talk about some imaginary Great Depression that didn't exist.

Now, let me go back to the question that was posed in the title—"The Value of Gold as Money and an Inflation Hedge."

"I am opposed to a price-fixing program that fixes the price of gold, just as I am opposed to government price-fixing of wheat or oil or of anything else."

PRICE STABILITY

In the first place, I want to disabuse you on some myths. It is not true that a gold standard means stable prices. The United States and Britain came as close to having a real gold standard in the 19th century as I suppose any country has at any time.

Let me give you some facts. Between 1808 and 1814, wholesale prices in the United States went from 115 to 182, so in that six year period, they rose at an 8 percent per year rate. In the next 10 years, 1814 to 1824, they fell at an average annual rate of six percent per year. In 1897, the price index was 68, in 1910 it was 103, a rise of 30 percent in the course of 13 years, 3 percent a year. That was all while we were 100 percent on the gold standard of the kind that John Exter is proposing. In World War I, we stayed on the gold standard throughout the War. We never went off the gold standard as other countries did. The price level, as you know, more than doubled during World War I, going from 99 to 226, 15 percent a year. We were on a gold standard in 1920, we were on a gold standard in 1930. In that 10 year period, wholesale prices came from 226 down to 126; they fell at six percent a year on the average. That's the United States.

Let me give you some figures for the United Kingdom. From 1789 to 1800, an 11-year period, the price level went from 117 to 194—five percent per year on the average. After the Napoleonic War, the price level went down by about 50 percent. That was always on a gold standard. Similarly, if we come to a later period, in 1873, the price level in Great Britain was 134 and in 1896 it was 74; prices fell at three percent a year on the average for something like 23 years.

In the next period, 1896 to 1912—16 years—prices went from 74 to 103. If we take this period, when the U.S. and Britain were on a gold standard, the price level varied over a range of about three to one. Sometimes it was about three times as high as other times. That's not a bad record as price levels go. I don't want to mislead you—I think that's a pretty good record, but it is very far from the kind of perfect stability of prices that some of the idealistic, gold-plated views of the gold standard would lead you to believe.

Now I want to ask the next question. Does the gold standard mean a stable economy, does it mean economic stability? If we judge from that record, the answer is "no." We had repeated business cycles, prosperity, depressions on the gold standard. The Great Depression occurred while we were on the kind of gold standard that John Exter favors, the pseudo-gold standard. But even when we were on something much closer to a real gold standard before 1914, we had depressions and we had expansions. The depression of the 1890's was a very severe and serious depression, one of the most severe on record. We had inflations, so that a gold standard historically has not guaranteed stable prices, and it has not guaranteed stable economic conditions.

RESTORATION OF GOLD

What is the possibility of a restoration of either a true gold standard or a pseudo-gold standard in the United States by official action? The answer in my opinion is zero. I think anybody who really believes that the U.S. Government is going to assume the obligation to buy or sell gold at a fixed price, whether the fixed price be $42 an ounce or $420 an ounce, must be living in a dream world.

We would be foolish to do it. Now, I admit governments sometimes do foolish things, so maybe I am giving too much credit to our government if I think they are incapable of doing so foolish a thing as that, but I don't think so. What do we gain by it?

We might be very well advised to sell off some of our gold at the present price of $150 an ounce. That would get rid of a frozen asset and might enable us to turn Fort Knox into some useful purpose, but

I don't really see what we would gain by pegging the price of gold. We would only be setting ourselves up again for going through the process that we went through once before. From the day in 1933, when F.D.R. prohibited the private ownership and holding of gold, it was inevitable that we were ultimately going to close the gold window and go out of the business of pegging the price of gold. It was only a question of how long it was going to take to do it. I do not believe that you can have a viable gold standard without private ownership and the right to convert paper into gold, on demand. I do not see any chance whatsoever of the U.S. Government being willing to do that, or any reason why it *should* be willing to do it.

What about on the private side? I believe the possibility of a restoration of a gold standard on the private side is negligible but not zero. I can envision the possibility of individuals starting to trade with one another in gold. You might build up, over the course of time, a private money based on gold. Under what circumstances would that occur? It would occur only if governments are completely irresponsible in respect of the issuance of money, but there still remains a world in which gold can be traded.

That is not an easy assumption to accept. If governments are so irresponsible in their monetary policy that paper money becomes completely unreliable and is eliminated, I find it hard to believe that the governments themselves will exist or that you will have a kind of a world in which it will be possible for people to dream of trading on the basis of gold. This is where it seems to me people are so unrealistic. I can conceive of the disaster that all of our countries become collectivist and authoritarian. If we really do have unrestrained inflation, we shall not end up with a democratic system; there is no doubt about that. We cannot maintain democracy, in my opinion, if we go through hyperinflation or hyperdeflation. If John Exter is right, democracy is done for. If democracy is done for, it is not going to do you much good to own that gold. What are you going to do with the gold when the Gestapo comes and knocks on your door?

THE FUTURE

So, let's face up and be a little realistic. I believe that the doomsayers who are saying we are going to go in either of those directions are doing an enormous amount of harm because we are *not* going to go in either of those directions. There is not an ounce of a chance that any of the major western nations is going to have a hyperinflation. If you look at the record of history again, the large number of hyperinflations have all been characterized by one feature, which is necessary for hyperinflation, real hyperinflation, the German type. I am not talking about high inflation rates, I am not talking about inflation rates of a mere 100 percent a year; I am talking about *hyperinflation.* These are times when prices double every day. A student of mine who did the classical work on hyperinflation defined a hyperinflation as beginning when prices are rising more than 50 percent a month. And that's the early stages. When they get going, employers pay wages to people morning, noon, and night—three times a day—so they can go out and spend them before prices rise some more. That kind of a hyperinflation occurs only when countries, after military defeats, do not have a governmental structure capable of collecting taxes. That is the necessary condition for such hyperinflation. We are not facing that prospect and we are not going to have hyperinflation, and let nobody tell you otherwise.

"It is not true that a gold standard means stable prices."

I can conceive of a great depression more readily; that doesn't require these conditions. And maybe we will have a great depression if we let ourselves go and get into a real inflation—not the kind of piddling 8 or 10 or 12 percent one that we have now, but one that is going at 30, 40 and 50 percent a year. I can imagine the public getting sufficiently excited about inflation to be willing to accept policies that would produce a great depression. But we are not going to have a great depression until that happens and that is not going to happen in the course of two or three years. It *may* happen; if it does, it will be 10, 20 or 30 years from now.

In between those extremes maybe I'm wrong, maybe people will trade back and forth with one another in terms of gold, maybe they will decide that that's a preferable money to the paper they use. If so, fine—more power to them. If a private gold standard money arises, fine. But a government commitment to convert paper into gold would destroy the possibility of a private gold money. The kind of a system John wants would make a private gold money utterly impossible, because if governments are going to enter into the commitment to convert paper into gold, they are also going to impose restrictions on what you can do with gold, who may hold gold, where you may hold gold.

INFLATION HEDGE

Let me go to the second question. The present status of gold and gold as an inflation hedge. Today gold is a speculative commodity like soybeans. Its price rises and falls from day to day by large amounts. It is a lousy store of value when its price can go up by 30 percent in the course of a month or two or down by 30 percent in the course of a month or two. Is *that* a good inflation hedge?

To judge gold as a store of value, we must look at the evidence over a long period, not just over a few years, so my calculations cover the period from 1929 to the present. Also, we must allow for the cost of holding gold, which consists both of literal storage costs and the interest use of capital tied up. For the present purpose, I have treated the cost of holding gold as three percent per year to cover both costs—certainly a minimal estimate.

Finally, in judging gold as a store of value, we must look not at its nominal price but at its purchasing power in terms of goods and services, since the whole purpose is to judge how good an inflation hedge gold is.

Suppose you had bought gold at $20.67 in 1929 and, let's say, you sold it just after F.D.R. raised the price of gold to $35 an ounce in 1934. Of course, to do that you would have had to conceal the gold and have sold it illegally, but a lot of people did that. It wasn't very hard. You would have done very well. In 1934, you would have had an 87 percent gain in purchasing power. You would have gained because the price of gold went from $20.57 to $35 and in addition because prices in general fell sharply, roughly by one-third during the depression. So, in that five-year period, you would have done very well. Now, let's suppose you had bought gold in 1934, at $35 an ounce, and held it to 1968, which is the next point of interest. That is, you held it for 34 years. In that case, you would have ended up in 1968 with 14 percent as much purchasing power as you started with in 1935. Six-sevenths of your wealth would have been eroded away by price increase of other goods over that time and by the storage costs.

Now we come to another brief bonanza. In 1968, suppose you had bought gold at $35 an ounce and had held it until today. Today the market price of gold is $150. You would have done very well—enormously well over that six-year period. Today, your purchasing power would be 2½ times as great as in 1968. That would have been a very good deal.

Suppose, however, that you add the six years on to the prior 34 years. Suppose you had held gold from 1934 to 1974. You held it through the dry period to benefit from the bonanza. At the end of that time, you would have ended up with 36 percent as much purchasing power as you had at the beginning. The gain in the

six years doesn't begin to eat up the loss in the 34 years. Suppose you had held it for the whole period 1929 to 1974. That would have been perfect foresight. You bought it at its low dollar price and you are now holding it at its high. You would have lost one-third of your purchasing power. You would now have two-thirds as much as you started with.

If you call that a good inflation hedge, I find it hard to follow that reasoning. It's a very unreliable inflation hedge. If I am going to have an inflation hedge, I don't want to have to wait 30 years before I can cash it in. I want to have something which is pretty good over a shorter period of time.

Everyone has been talking about what a poor hedge stocks are against inflation. If you make these same comparisons for stocks over the same period, stocks have been a far better inflation hedge than gold. That isn't true for every year. It isn't true for the past six years, but when I hear these gold bugs talk, they seem to be saying that all of American history is divided into two parts—1492 to 1968 and 1968 to 1974. That doesn't seem to be to be a very sensible way to extrapolate the past.

GOLD'S FUTURE

What of the future? That's the record of gold up to date. Up to date, only those people who held it from 1968 to 1974 have really done very well; all the other people have lost their shirts. What about the future? Is gold going to go up to $200, $500 an ounce? Is it a sure-fire way to make your riches? Well, let's look at the facts again. I want first to leave out all speculative elements and just look at it as an inflation hedge.

There is no reason why gold, along with other commodities, should not participate in the general inflation. Copper rises in price with inflation, iron and steel rise in price, gold will rise in price with inflation. If, as I expect, price inflation continues, so will the price of gold continue to rise.

But let's ask, how does the price of gold stand now in light of earlier dates taking into account inflation? I told you that in 1929 the official price of gold was $20.67. At that price of gold, over half of the total gold production was going into monetary stocks. Only half of it was being purchased for other uses, so the price was the price at which the private market only wanted to absorb half of it. The price level today is a little less than three times as high as it was in 1929, 2.86 times. On that basis, a price of gold today which would be comparable to the $20.67 price in 1929, allowing for inflation, would be $59.12.

All right, that's one comparison. Now let's go to 1934, just after the price of gold was raised to $35 an ounce. We know that that $35 an ounce was way above the true market price for gold, because gold flowed into the United States and we ended up with an enormous gold reserve. Not only did we absorb all of the new production, we absorbed a large part of the gold that had been outstanding, so $35 was obviously much higher than a price that would have cleared the market without the government purchase program.

"I do not believe that you can have a viable gold standard without private ownership and the right to convert paper into gold, on demand."

From 1934 to date, the price level has risen about 3-2/3 fold, that is, prices are a little less than four times as high now as they were in 1934. If I multiply $35 by that, I get $128.10. I submit that there is no way in which, in terms of inflation adjustment, you can say that a price outside that range is a reasonable price for gold which is not being purchased by monetary authorities. And today, at the present speculative price of $150 an ounce, a large fraction of current output is not being purchased for commodity uses. About half of it is going into commodity uses, and the rest is going into either private or official hoards.

Obviously, all of these numbers will be raised if we have more inflation. What I am saying is that the price range for gold that can be justified in terms of inflation alone is well below the present price of gold. That doesn't mean the present level is wrong; the right market price is whatever the market price is. If people are willing to pay $150 for an ounce of gold, that's the price of gold. I am not quarreling with the market; I am only saying if you are looking at it as an inflationary hedge, that price cannot be interpreted as an inflation-hedge price.

Let me add to this the fact that the monetary stock of gold in the hands of central banks alone—leaving out private hoards of gold—is 30 times as much as one year's production, and that gold is overhanging this market. Central banks in distress are going to be strongly tempted to sell some of that gold to realize on it. Italy has already started; it has pledged $2 billion worth of gold at a collateralized value of $120 an ounce for a loan from Germany. When it can't pay off that loan, if the market price is $150, do you mean to say it isn't going to be strongly tempted to sell off its gold? It certainly isn't going to hand it over to Germany for $120 an ounce. Is there anybody here who thinks that some central banks around the world aren't going to get itchy fingers and try to take advantage of that high market price? I conclude that the market price of $150 is a speculative price and not one that you can regard as immune from all sorts of contingencies.

In my view, an honest-to-God gold standard would be, among the imperfect monetary standards that are available, a pretty good standard. But we have almost never had it and there is almost no possibility of having it. A pseudo-gold standard of the kind that we had before 1971 is far worse than an honest-to-God paper standard. Gold has not been a reliable inflation hedge. There is nothing in the realm of theory or present empirical evidence to give you any reason to expect that it will in the future be any better an inflation hedge than it has been in the past. ◻

LUCIFER'S LEXICON
by L. A. Rollins

collective security, n. A system for the maintenance of world peace through world war.

security, n. Freedom from freedom.

self-contradiction, n. The act of asserting both A and not-A as in the statement, "I am the President, and I am not a crook."

single-taxer, n. One who advocates one tax too many.

Stars and Stripes, The, n. The Blood-Spattered Banner; Old Gory.

statute, n. A man-made law, i.e., a transgression of natural law, i.e., a crime against nature, i.e., an unnatural act of Congress.

subsidy, n. Government aid to a private commercial enterprise deemed beneficial to the public—but not by the public. Government aid to the Plunderprivileged.

supplicant, n. One who has the independence to stand on his own two knees.

tax, n. A payment made to a government for servitude rendered.

tax, v.t. To fleece the sheep; to pluck the geese; to milk the cowed.

tax dodger, n. One who keeps his own money: a term of opprobrium. One who cheats a bloodsucker.

taxpayer, n. One who renders unto a seizer what is not the seizer's; one who feeds the mouth that puts the bite on him; an April fool.

theocracy, n. Blind faith employing brute force.

APPENDIX *(continued from page 48)*
manufacturers using the information and addresses given in the Catalogues. Some things can be ordered from the Catalogues. These Catalogues can generally be found in local bookstores. (If not, order from *The Libertarian Review* 422 First St., S.E. Washington, DC 20003. $5 and $4, respectively.)

AGRICULTURAL EXTENSION SERVICES and the like are good sources of cheap (or free) information in the form of pamphlets. Check out your local State Agricultural Extension Service.

Write to:
Information Division
Canada Department of Agriculture
Ottawa, Canada KIA OC7

and ask for their publications list. Each individual can obtain a maximum of 10 different publications for free.

You can also write to:
Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

SPECIALIZED REFERENCES

GARDENING AND FARMING:

Encyclopedia of Organic Gardening, ed. by J. I. Rodale and Staff. 1145 pages of essential information on just about any aspect of gardening. $12.95 from Mother's Bookshelf.

The Basic Book of Organic Gardening, ed. by Robert Rodale. $1.25 pb. Check your local bookstore. Also available from Mother's.

The Complete Book of Composting, J. I. Rodale and Staff. Rodale Press, Inc. Book Division, Emmaus, PA. 1007 pp. Price not known.

Organic Gardening and Farming Magazine, ed. R. Rodale, 33 East Minor St., Emmaus, PA 81049. One year $6.85.

FOOD PRESERVATION AND COOKING:

Putting Food By by Ruth Hertzberg, Beatrice Vaughn, and Janet Greene. Excellent coverage of home food preservation—drying, canning, smoking, pickling, root cellars. From Mother's. 370 pp. $4.50.

Ball Blue Book. Home canning methods. 50¢ Postpaid from Ball Corp., Muncie, IN 47302.

Culinary Capers. Cooking with dehydrated survival foods. From Perma-Pac, Inc. #40 East 2430 South, Salt Lake City, UT. $3.00.

Home Food Dehydrating by Jay and Shirley Bills. P.O. Box 490, 55 East 300 South, Bountiful, UT. $3.95.

Diet for a Small Planet by Frances Moore Lappe. Useful information on combining nonmeat proteins for maximum utilization. Mother's, $1.25.

WILD FOODS

Edible Wild Plants by O. Medsger. $2.95, 383 pp. From Mother's.

The various books by Euell Gibbons are quite good. *Stalking the Wild Asparagus, Stalking the Blue-Eyed Scallop, The Beachcomber's Handbook, Stalking the Healthful Herbs.* Some, but not all, of these are available from Mother's. Check your local bookstore.

SURVIVAL SKILLS

Survival With Style by Bradford Angier. From *Libertarian Review,* $2.45.

Bushcraft: A Serious Guide to Survival and Camping by R. Graves. 344 pp., pb. $3.95 from Mothers.

MEDICINE

The Merck Manual 12th edition. Useful, but not intended for use in primitive conditions without medical supplies. $8.00 from *The Whole Earth Catalogue,* or any medical bookstore.

Being Your Own Wilderness Doctor by Dr. E. Russel Kodet and Bradford Angier. $1.50 + .25 postage from Simon & Schuster, 1 West 39 St., New York, NY 10018, or from *The Whole Earth Catalogue.*

WEAPONS AND SELF DEFENSE

The Adobe Hacienda (Route 3, Glendale, AZ 85301) and Paladin Press (Box 1307, Boulder, CO 80302) are good sources for books dealing with such topics as guerrilla warfare, weapons use and maintenance, and related topics. The Adobe Hacienda also carries wilderness survival books. Write for their free catalogues.

Check out a local gun shop for *The Shooter's Bible* by R. Koumjian and *The Gun Digest,* ed. by J. T. Amber. These are sources of information on civilian guns, ballistics, and accessories.

If you are thinking of purchasing a weapon, especially a pistol or revolver, I would suggest you try to buy it anonymously from a private individual. Not only are such weapons cheaper, they avoid the danger of legislative sanctioned confiscation, which you face if you own a handgun which is registered to you. Not only has direct control of handguns by confiscation been proposed more frequently lately, but there have been proposals to regulate handguns by prohibiting the interstate transportation of handgun ammunition. There are also indications that shortages of ammunition (especially handgun ammunition) are imminent. So I would recommend stocking up on ammunition for your weapons.

LAND ACQUISITION AND SETTING UP

Finding and Buying Your Place in the Country by Les Scher. Extensive source for legal and practical information—location, inspection, financing. Section on group co-ownership. Paperback $6.95, Mother's.

Five Acres and Independence by M. G. Kains. Small farm management. $2.50 from Mother's.

Farming in Canada. Canada Department of Agriculture. Pub. #1296.

ENERGY

Mother Earth News Handbook of Homemade Power. $1.95 from Mother's Bookshelf.

Direct Use of the Sun's Energy by Farrington Daniels. $1.95 + .25 postage from Ballantine Books, 201 E. 50th St., New York, NY 10022.

SHELTER

Practical Farm Buildings: A Text and Handbook by James S. Boyd. $7.95 from Mother's.

How to Build a Wood-frame House by L. O. Anderson. $3.00 from Mother's.

Building a Log Cabin in Alaska. Cooperative Extension Service, University of Alaska, College, AK 99701. Pamphlet P-50A. Ask for their list of publications.

WATER RETREATING

Ocean Living, William Taylor, ed., Box 17463, Los Angeles, CA 90017. $1.00/10 issues.

Knight's Modern Seamanship, 14th Ed. $14.95 postpaid from Van Nostrand-Reinhold, 450 West 33rd St., New York, NY 10001 (or *The Whole Earth Catalogue*).

ANIMAL HUSBANDRY

The Homesteader's Handbook to Raising Small Livestock by J. D. Belanger. $8.50 from Mother's.

Handbook of Livestock Equipment by E. M. Juergenson. $9.25 from Mother's.

The various Government Agricultural Services are good sources of material in this area. ◻

A NEW U.S. GOLD COINAGE

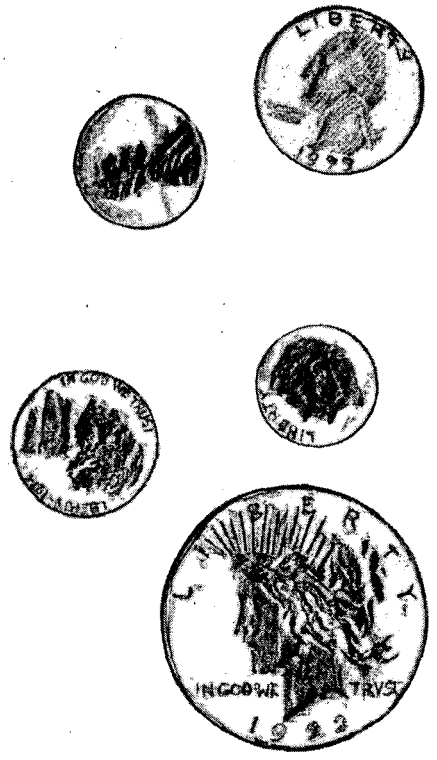
Charles Curley

Last December 31st, it became possible for Americans to own gold bullion, for the first time since 1933. It is about time this prohibition were repealed; it should never have been imposed. Once more, Americans who do not trust their government's monetary policies have a safe refuge from them.

The world is steering between the Scylla of depression and Charybdis of hyperinflation. After 40 years of inflation, it is inevitable that the world will go either into a severe depression, or into a hyperinflation greater in scope than that of Germany in 1923. Whichever way the future goes, the result will be a period of chaos, and we will see much of our savings destroyed. Indeed, many Americans and Britons have already seen a large portion of their savings wiped out.

Not only is it important to preserve our savings for our own futures, but it is important to see that others have as much opportunity to preserve their wealth as possible. A deposit account with 100,000 Swiss Francs in it won't do you any good if there is nothing for you to spend it on. A simple way of investing in gold should be available to the average American with only a few hundred dollars to invest. This, then, is part of the reason for my coinage proposal.

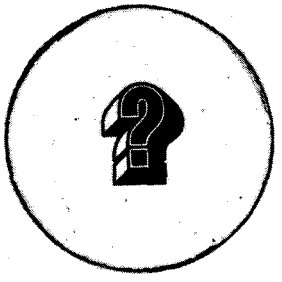
Another reason is this: after whatever economic disaster happens, there must be a sound currency to provide a base upon which a new, surer economy can be built. This, too, requires gold coinage, which would circulate to provide a stable currency.



A MODEST PROPOSAL

My proposal is this: the United States should mint two new gold coins, containing one ounce and one-half ounce of gold. The two coins, which I like to call the von Mises and the Jefferson, would have no face value and would not be legal tender. Initially, they would be coined out of the present U.S. gold stock, but they would be sold only for gold bullion. Naturally, the coins would be sold for a premium over the bullion value of their gold content, the premium to go to pay for the costs of minting.

The most novel aspect of the von Mises and the Jefferson is the lack of any face value. Yet, the



Charles Curley is the author of The Coming Profit in Gold *(Bantam), and was a founding member of the National Committee to Legalize Gold. He lives in Los Angeles and works in the investment field.*

dollar's depreciation against gold, and the volatility of the market require that no value be put on the coins. Indeed, they would be obsolete before they could be introduced if they did have a face value! However, in this respect, the von Mises and the Jefferson are patterned after the Krugerrand, a South African coin which has no face value. The Krugerrand bears the legend, "Sud-Afrika • South Africa" and a portrait of President Kruger on one side, and, on the other, the legend, "Krugerrand • Fyngoud 1 oz. fine gold," the date, and a springbok, or South African antelope. The Rand itself is pegged to the dollar, so for the South African government to have put a face value on the Krugerrand would have encouraged hoarding.

If a gold coin has a face value, then it will circulate only as long as the face value is not less than the bullion value of the coin. We have seen what happens when the coin is worth more as bullion than as currency: it goes out of circulation and into hoards. We saw this here in America with the silver coinage and the gold coinage before it, and we almost saw it happen with our humble copper coinage. Even with a face value of $300, eventually the von Mises would end up in hoards as the price of gold exceeded that level.

Rather, without a face value, the von Mises would circulate much as the Krugerrand does in South Africa. There, where it is legal tender, the Krugerrand is valued by the free market. The merchant who is presented with a Krugerrand is required to accept it, but the value is set between the merchant and his customer, with the Reserve Bank of South Africa as the final word in case of dispute. However, since the von Mises and the Jefferson would only be bought from the Treasury with gold bullion, there would be no need for the Treasury to set a daily gold price, and the value of the coins in terms of the dollar would be set from the commodity markets in Chicago, New York, or London. This procedure also has the positive benefit of removing a possible source of government interference in the marketplace.

LEGAL TENDER?

The coins would have no legal tender status. All that a legal tender law means is that whatever the government declares to be money must be considered money. This is a rather peevish attempt to usurp one of the more important functions of the market, to determine what people will accept as money. Since the market prefers a stable money to an unstable one, one can see that the only possible use that the government can have for a legal tender law is to impose on the market an unstable currency—say, a fiat currency.

However, the lack of legal tender status would not interfere with the circulation of the coins. The fact that checks and credit cards are not legal tender has not bothered Americans in the least. Checkbook money now comprises some 38 percent of our money supply (the rest being savings and other time deposits, and currency in circulation). In addition, credit cards, such as Master Charge or American Express are now accepted in stores all over the world. If the marketplace is willing to accept checks and credit cards, then there is no reason why it should refuse gold coins just because they don't have the legal tender imprimatur of the government! Indeed, this means that those people who do not understand or appreciate the monetary nature of gold will not be forced to accept the "barbarous relic"!

"The 'von Mises' and the 'Jefferson' are patterned after the Krugerrand, a South African coin which has no face value."

But the reason for not making the von Mises legal tender is even more long-ranged. It is a first move toward the possibility of repealing present legal tender laws. If we are to legalize free trade between consenting adults, then not only must the government refrain from telling you what you may or may not buy, but it must refrain from telling you what you may buy it with!

TAPPING FT. KNOX

If the United States is to mint these coins, then it would be fair that the initial stock of gold for these coins should come from the U.S. Treasury's stocks. Certainly, after having just tried to unload 2 million ounces of gold, the Treasury shouldn't object to minting a lesser amount into coins for sale to the public. And, if the gold was in the form of one ounce coins, they might possibly sell more than if it were in the form of 400 ounce bars of dubious purity.

The Treasury's stocks of gold are dangerously low, however, and if the U.S. is ever to return to a convertible currency (not necessarily the dollar), then it will need every ounce of gold that it has. It was recently announced that most of the gold in U.S. stocks is coin melt; i.e. 900 fine instead of pure, since it was made from melted coins and never refined. This gold is useless for commercial uses and unacceptable to foreign central banks because it would have to be refined to 995 fine or purer before it would be useable in industry.

My proposal provides a partial solution to this problem as well as that of the limited stock of gold in any form. Rather than have purchasers buy the new coins from the Treasury with dollars, the Treasury's customers would pay for the coins with gold bullion of at least 995 fine or purer. The old coin melt would be used to mint the new coins (after assay to be sure of the fineness) and the new gold bullion would

become part of the stocks of gold which the U.S. will need in order to return to a gold bullion standard.

This procedure has the advantage that the Treasury will be able to exchange its old gold in an unacceptable form for bullion which is acceptable without having to refine it, which will save the taxpayers quite a bit of money.

PAYING THE PIPER

There are costs in all this and I do not propose that they should be borne by the general taxpayer. No, indeed; he has enough burdens already! Therefore I would have the price of the coin set slightly above its bullion content in order to cover these costs. Thus, the von Mises might sell for, say, 1.05 ounces (a five percent premium). This would appear to require odd sized bars of bullion for the small traders, but this problem could be met by settling the differences in dollars, provided that the amount of gold being delivered to the Treasury is at least as much as the amount going out.

"The only possible use that the government can have for a legal tender law is to impose on the market a fiat currency."

Alternatively, a large dealer or bank could go to the Treasury with a 100 ounce bar, say, and (assuming a price of 1.05 oz. per von Mises) come away with 95 coins and a certain number of dollars change (100 divided by 1.05 equals 95.238). The amount of change would be determined by multiplying the surplus (here, .238 oz.) by the daily price on a specified commodity exchange's spot price. At a price of $200 an ounce, the change here would be $47.60.

This, of course, would require that the Treasury know exactly what it was getting. Rather than assay the newly acquired gold, in most cases, especially where it is gold which has a commodity exchange's seals still intact, it would be possible simply to store the bullion with its seals intact. This is the standard procedure with central bank "good delivery" bars (400 ounces, 995 fine or purer), but there is no reason aside from government distrust of the market why this procedure cannot be used with other gold as well.

The Secretary of the Treasury, or whatever appropriate official he might designate, would be able to change the premium in order to meet changing market conditions. The general policy would be to mint and put into circulation as many of these coins as possible, consistent with the needs of paying for the costs of minting. However, there might be times when production of new coins might not offset a high demand, and there would be a shortage of the coins (i.e. they would sell at a price much higher than their bullion content, as the U.S. $20 gold piece does today). Under these circumstances, the government could temporarily dampen demand by increasing the premium while it prepares for increased production to meet the high demand.

PROFIT POTENTIAL

Nor should this proposal be overlooked as a means of raising revenue for the government. Last summer, South Africa doubled its Krugerrand production, to 3.5 million coins a year, and even so the Krugerrand was selling in Europe for as much as 18 percent over bullion. This premium only came down when South Africa doubled production again, to the current rate of 7 million coins a year. With the Krugerrand, the high profits were reaped by middlemen, but there is no reason why some (not all) of this profit couldn't accrue to the government. In fact, there is no reason why such profits cannot be put toward the inflationary national debt.

And the coins will certainly sell! Collectors will be interested in the first U.S. gold coins in forty years, and the first one ever with no face value. Also, the bullion coin buyers will be interested in having a U.S. coin available to them. Certainly the high premiums to which hoarders have driven even common date double eagles are indicative of the value which they place on a U.S. coinage over the Hungarian restrikes or the Krugerrand. Even the common date St. Gaudens or Liberty double eagles have become enormously over-priced because of this factor.

However, the Treasury must avoid the temptation to overprice the new coins, as it did with the Eisenhower dollar fiasco. The price of the von Mises must be competitive with other bullion coins, and then, only if the demand is insatiable, the premium might be raised, to be lowered later with increased production.

IN MEMORIAM

I chose to name my proposed coins after Ludwig von Mises and Thomas Jefferson because of the contributions which each has made to the cause of liberty in this world. Jefferson's Declaration of Independence is much better known than his other works, but his writings on the nature of money and banking and debt are well worth reading today.

Dr. von Mises is perhaps one of the greatest minds of the twentieth century. His contributions to economics were swept under the rug by the "Keynesian revolution," but, as the Keynesians themselves reexamine the usefulness of their policies and theories, von Mises' works are beginning to assert themselves again. His works on economics are the counterpart of Jefferson's political ideas in defense of liberty. It is appropriate that the first U.S. gold coinage in forty years should bear their names and images. ◻

There will be a significant new-party vote in 1976. Where it goes depends on you.

The American people are more dissatisfied with the two major parties than at any time since World War II. The mismanaged economy, combined with the lingering bad aftertaste of Watergate and the oil and grain scandals, all add up to cause for public revulsion and revolt.

Thus, as many as five million Americans may well vote for a new-party Presidential candidate in 1976 . . . if they're given a rational alternative to the bunkum-hustlers put forward by the GOP and the Democrats.

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That's why it is crucial to raise a minimum of $50,000 prior to the national LP nominating convention in September of 1975. Given that amount as a base, the LP can raise the $500,000 to $1 million needed for the campaign in '76. Failure to accumulate the necessary funds, on the other hand, will leave millions of disillusioned voters with no place to turn but the "crank" parties of the Far Left and Far Right, with all their inconsistencies, simple-minded slogans,and superstitions.

You can help make sure that doesn't happen. You can assure America's voters (yourself included) a rational alternative. By sending a contribution to the national LP's Liberty '76 Fund, which has been set up for the exclusive purpose of accumulating the financial foundation for the 1976 Presidential campaign.

Do it today. Don't leave the rational voter with no place to turn. Make checks payable to Liberty '76 Fund.

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550 Kearny Street, Dept. B
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☐ Enclosed is a one-time contribution to the Liberty '76 Fund, as indicated.

☐ I hereby pledge to contribute the following amount to the Liberty '76 Fund each month, from now through August, 1975. Enclosed is my first month's contribution.

☐ $500 ☐ $250 ☐ $100

☐ $50 ☐ $25 ☐ $10

☐ $5 ☐ $_____

Liberty '76 Fund.

THE UNCERTAIN FUTURE OF GOLD CLAUSE CONTRACTS

Alan Reynolds

The legalization of gold ownership in America, after 40 years of prohibition, is an event of virtually no significance whatsoever. Such was the consensus that seemed to emerge, however reluctantly, from last December's conference on gold clauses at the University of Miami's Center for Studies in Law and Economics. The result was all the more surprising since friends of gold were quite amply represented among almost 60 distinguished participants. Ben Rogge and Israel Kirzner were there, as was Don Kemmerer of the Committee for Monetary Research and Education, and REASON's own Davis Keeler. Other familiar names included Armen Alchian, Karl Brunner, Allen Meltzer, Warren Nutter, Haberler, Demsetz, Tullock, Meiselman, and, of course, our hosts—Henry Manne and Roger Miller. But it is indicative of the promise of the new Center that the economists were much more influenced than they expected to be by, of all things, a bunch of brilliant young lawyers. And the lawyers, though they wouldn't admit it under oath, doubtless gained something from the exchange as well.

Alan Reynolds is an associate editor of National Review *as well as a REASON contributing editor. He is a graduate of UCLA where he majored in economics. His articles have appeared in publications ranging from the* New York Times *to* The New Guard *and* The Alternative.

The focus of the conference was a massive and rigorous history and analysis of the actions taken by the government in 1933, forbidding private trading in gold and abrogating gold clauses in existing contracts. That paper was presented by James Buchanan and Nicolaus Tideman of the Center for Study of Public Choice at Virginia Polytechnic Institute. It was followed by comments by two lawyers, Ralph Winter and Gerald Dunne, and by two economists, Milton Friedman and Harry G. Johnson. The entire proceedings are to be published in book form soon, and it is impossible in this space to do more than touch lightly on some high points.

On June 5, 1933, Congress passed a Joint Resolution which, in Buchanan and Tideman's words, "abrogated gold clauses in all contracts, public and private, past and future." Gold clauses said that you would receive whatever number of dollars were required to buy a certain weight of gold. By calling in all privately-held gold (really only about half) at $21.67 and then revaluing it to $35 under the Gold Reserve Act of January 1934, the government made a tidy windfall profit of $2.8 billion. Buchanan and Tideman conclude that these actions were probably necessary and certainly legal, given FDR's disastrous starting point (1933), and the institutional arrangements of the time.

FEW RIGHTS

From the discussion that followed, it became clear that the legal status of property rights in gold, even more so than that of property rights in general, is in an extremely restrictive and precarious state. Richard Epstein, of the University of Chicago Law School, noted that contracts can be set aside for reasons of "fraud, duress, mistake, or frustration" of the intent of contracting parties. Since the intent of gold clauses was to provide protection against inflation, not to profit from devaluation, there was no frustration of intent in abrogating such contracts. David Meiselman, however, noted that gold clauses were contained in highly negotiable bonds, which may have been purchased just before the devaluation, so the intent of the original parties would be somewhat irrelevant in such cases.

Henry Manne noted that the Constitution's delegation of authority to regulate money would only be applicable if courts attributed moneyness to gold, which would be rather contradictory at the present time. Ralph Winter, of the Yale Law School, countered that government could do just about anything about gold under the commerce clause, since gold affects interstate commerce. Warren Nutter, of V.P.I., noted that since the government had virtually unlimited powers of taxation, it could achieve the same effect as expropriation by simply levying a confiscatory tax on gold. Felix Wormser suggested defending gold by the Ninth Amendment's right to life provision, but Mark Holzer said that he had tried it in court with no success. Holzer believes gold ownership

could be made illegal tomorrow, under existing emergency legislation, without even an act of Congress. The legislation to legalize gold does not, according to Holzer, undo the Joint Resolution's refusal to enforce gold clause contracts.

In short, the discussion tended to show, as Manne put it, "why it will always be unconstitutional to avoid inflation." This did not go down easily with the economists—not even the monetarists. Israel Kirzner agreed that even Milton Friedman sounded like a gold bug in this context. "The U.S. would have been far better off," said Friedman, "if the Federal Reserve had never been established." Kirzner himself noted that the public goods argument—that all of us benefit from using the same money—"assumes that we know what is required, but this is only revealed through the trial and error process of the market." Armen Alchian agreed that "there is nothing about the public goods argument that says public goods should be supplied by the government." "Asking the government to control money," added Ben Rogge, "is like asking an alcoholic to run the liquor store."

Gordon Tullock of V.P.I. is fondly disposed toward gold as a potential source of competition with legal tender, but Davis Keeler wonders why we don't see this happening in countries where gold ownership and trading have long been quite legal. All it would take is warehouse receipts issued in bearer form, but gold is invariably held as an asset rather than used as a medium of exchange. Karl Brunner, of the University of Rochester, is nonetheless quite right when he says that "gold is a permanent embarrassment to misbehaving monetary and fiscal authorities."

INDEXING THE ANSWER?

Some monetarists took refuge in the idea that indexing contracts in terms of several commodities would be more reliable than a gold clause—which is essentially just a single commodity index. The lawyers thought that such indexed contracts could be invalidated as easily as gold clause contracts. But Friedman noted that the government itself has indexed its own pensions and the like (bureaucrats aren't as dumb as they act), which would make it hard for the government to violate comparable protection in the private sector.

In the end, we are left with the necessity of major reform in institutions in order to secure the blessings of liberty against capricious attenuation of property rights. Law, as it stands, grants enormous discretionary authority over "economic" rights, confining some protection only to "individual" rights. The distinction, as Ralph Winter pointed out, is "wholly artificial except as part of a personal value system. One may personally prize sexual gratification over economic gratification and thus regard the former as more essential to the exercise of individual rights than the latter. That is a matter of personal preference, however, and not of constitutional dimensions. . . . Those who argue that the abortion decisions can be justified as a facet of the right to do as one pleases with one's body are hard pressed to justify compulsory seatbelts as 'economic' regulation. And those who would rubber stamp 'economic' regulation have lately been nervously arguing that welfare regulations fall outside that category. . . . Not only does the distinction break down in both directions but it also fails to recognize that 'economic' regulation is a potent device to infringe other rights, e.g., regulating the price of abortions." "Under present precedents," says Winter, "a serious challenge simply cannot be made to government's setting the price of any product or service, redistributing income, inflating or deflating the economy, nationalizing any industry and, a fortiori, prohibiting index clauses." There we are. One could scarcely ask for a better illustration of why libertarian lawyers and economists have to start listening to each other, and why one of the finest economists of all time, F. A. Hayek, has devoted the latter part of his life to a rediscovery of the philosophy of law. ◻

RECOMMENDED READING

- E. Furobotn & S. Pejovich, *The Economics of Property Rights* (Ballinger, 1974).
- J. Buchanan, *The Limits of Liberty* (Univ. of Chicago, 1975).
- R. Miller and R. Williams, *Inflation and Unemployment* (Grid, 1974).

Rare Coins

Liberty Coin Service has offered its services of gold and silver brokerage to readers of REASON since 1971.

In addition to our precious metals brokerage, Liberty Coin Service is an active dealer in rare coins. Our numismatic division offers a wide range of rare coins, specializing in rare U.S. gold coins, with a good selection of other U.S. coins and world coins. In addition, we fill want lists and offer numismatic counseling and numismatic reference books.

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DAWSON *(continued from page 30)*

Particularly important, is the fact that this newspaper gives financial news relative to sound money and real markets—rather than being content with re-writes of official pap turned out by governments, in the manner of most U.S. press.

Tax Newsletter
The Financial Times
Business Enterprises Div.
10 Bolt Court Fleet St.
London EC4A 3HL
England

The Financial Times (daily)
551 – 5th Ave.
New York, NY 10017

(U.S. Correspondents)
1325 E St. N.W.
Washington, DC 20004

The third very important source of Tax Haven information, largely utilized by international attorneys and tax advisors is:

The International Bureau of
Fiscal Documentation
Muiderpoort
Sarphatistraat 124
Amsterdam C Holland

This organization will, however, also do research for lay persons. Fees are reasonable considering the nature of the information. Subscriptions for their publications and services are available in a variety of forms, depending upon your needs.

The "Bureau" keeps up to date on *every* legal development in the world that affects economic and tax conditions. They publish complete, country-by-country manuals, with regular up-dating; handbooks on particular areas of taxation; and special studies on individual nations—with particular emphasis on tax havens.

Some years ago, the study of tax havens, and the access to available literature, was a difficult process. Only a few international legal-eagles knew what was out there, and a lot of them were not telling—at least not at these prices.

Today, however, there is more than enough information readily available on exactly what forms and systems of economic and legal liberty exist in the world. Care must be taken now, more than ever, to determine exactly which haven is best suited to your needs.

Economic problems are increasing rapidly in most parts of the world with no end—or shall we say, sound money—in sight. But it *is* comforting to know that sound alternatives for planning and action are also increasing. For each new restrictive law passed in one country, there is a less restrictive law passed in another.

Also, the world trend of nationalism is creating one new country after another. These mini, and some not-so-mini countries, usually desire to achieve material progress rapidly—a process that requires capital. The fastest and best way to attract such capital is to become a tax haven. The fastest and best way to protect your own capital is to find and use a tax haven. ◻

GUCCIONE *(continued from page 75)*

mand for my products was (and is) excellent; and so, I had to expand production—and to do that, I needed structural steel. Because of the steel shortage, my money was also inconvertible into structural steel. In late 1973 and early 1974, the steel producers in the 13 Western States had been so swamped with orders that they put into effect an allocation program and could not accept any new orders. The steel shortage, incidentally, was the direct result of the altered balance of trade (which followed the two dollar devaluations) when Japan drastically curtailed its steel exports to the Western States. The decrease in Japanese steel imports to the U.S. was aggravated by price controls, and this brought a critical imbalance between steel supply and demand.

To help me out of my predicament, one of my business colleagues suggested that since the steel company was one of my customers for calcium oxide, and I needed their structural steel, we should arrange a swap of materials; that similar swaps might be arranged with coal-mining companies, for instance, by swapping pulverized calcium carbonate for coal. (Pulverized calcium carbonate is used to prevent combustions in underground coal mines.)

Did I use the swaps? I'm not telling. Many people have engaged in barter of this type lately. Much as we hate a barter system, when a monetary system starts falling apart, the alternative to a money economy is a barter economy. What shocks me, however, is the fact that many business executives—particularly those who haven't had any direct experience with barter—think it's the best thing since the invention of the wheel. They think that these swaps can be done on a big scale with all sorts of commodities, and then collect a finder's fee from both manufacturers and users. But try to collect your finder's fee: you'll get it all right, in coal, steel, limestone, etc., and you'll need a 20-ton truck just to go shopping!

CONCLUSION

I'm sure that, as readers of REASON magazine, you are not surprised by the current mess in the economic, monetary and industrial areas. You know what's going on, and you know what to expect. Knowing something is half the battle. Acting on your knowledge is the other half—and far more difficult. There are no guarantees of success anywhere. But if anyone will survive with his own wealth and business in fairly good shape, it will be people like you—like us. The biggest challenge of them all in the years ahead might be that of keeping intact our self-confidence and self-respect. Good luck. ◻

Two people helped me greatly in gathering my thoughts as well as most of the material for this article: George A. Chapman, who is president of Chapman Company (Salt Lake City) and who also happens to be chairman of the Utah Libertarian Party; and Steve Trotter, a businessman in Ogden, Utah, who also happens to be a libertarian. George and Steve: my heartfelt thanks to you both.

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editorial

TOO BIG TO FAIL?

A few years ago the Federal Government took over the operation of all railroad passenger service. Amtrak, we were told, was not intended as a prelude to nationalization and would not be a drain on the taxpayers; indeed, its purpose was to restore profitability to rail passenger service. Now, several billion dollars of deficits later, we are told that Amtrak will have to be subsidized indefinitely, and that the government is going to have to nationalize the roadbeds . . . to ensure the survival of the railroads. At this rate, it should only be a few more years until complete nationalization of the railroads is upon us.

The rationale for railroad nationalization has already begun cropping up in the media. It was first applied to Lockheed Aircraft in 1970 to justify the government's $250 million loan guarantee, and more recently it was applied to the Penn Central Railroad. John Cobbs recently applied the argument to the auto industry, in a *Business Week* essay entitled "When Companies Get Too Big to Fail." And *that,* in a nutshell, is the argument. "The huge U.S. corporations have become such important centers of jobs and incomes," Cobb informed his readers, that the government "dare not let one of them shut down or go out of business."

Since we're likely to be hearing this simplistic line repeated in the months and years ahead, it may be worthwhile to examine its implications. To say that the government should prop up (or nationalize) failing industrial giants is to argue that every taxpayer in the country be forced to pay for the incompetence of one particular enterprise, so that its customers can continue to receive inefficiently produced goods or services. Such a policy robs the many for the benefit of a few. Further, it destroys the normal incentives of profit and loss by telling corporate managers not to worry if they foul up, because they can count on Big Brother in Washington to come to the rescue. Thus, companies which get so big and hidebound as to be inefficient and unwieldy have no incentive to change their ways.

In addition, when the government prevents an unprofitable company from liquidating, it is forcibly interfering in a contractual relationship between the company and its creditors. At this moment, for example, the trustee of the bankrupt New Haven Railroad (now incorporated into the Penn Central) is contending in court that the continued operation of the Penn Central's properties, by government order, constitutes taking the private property of the New Haven's creditors for public use, and is therefore unconstitutional under the Fifth Amendment.

There seems to be a common misunderstanding, probably fostered by news media treatment of the subject, that liquidation of a failing company is somehow unthinkable—almost as if it meant that the physical assets of the company were literally going to be liquidated, never to be seen again. But the *assets* of a company are just that: they are *resources,* things of value—at least to a more competent management. When a company is liquidated, its assets are sold to satisfy its creditors, and *somebody who wants them buys the assets.* In the case of a railroad, while the former management and organizational structure may cease to exist, the locomotives, cars, tracks, yards, stations, rights-of-way, etc. all remain, to be utilized more productively by someone else.

Those who bemoan the demise of the Penn Central and paint frightening pictures of a Northeastern U.S. bereft of rail service are closing their eyes to what happens in bankruptcies every day. As this is written, for example, the Rock Island Line has just declared bankruptcy, and the Federal Government, for once, has *not* come galloping to the rescue. Instead, one of three alternative reorganizations appears likely: merger of the line into a larger road (e.g. the Union Pacific), dividing up the profitable portions among several competing roads, or purchase of the line by a group of employees and shippers.

But the final obstacle to any kind of rational liquidation of the Penn Central is the political pull of rural and small-town politicians who demand the continuation of service on many low-traffic branch lines—lines which a large railroad (constrained by government-enforced union work rules and numerous ICC regulations) finds unprofitable. Normally (i.e., in the absence of political constraints), such branch lines would be sold, leaving a new, slimmed-down trunk line that could operate profitably. But what would become of the branch lines? To be sure, some would probably be torn up and sold for scrap, but many others would be turned into profit-making short lines, as has been happening across the country in recent years: e.g., the Great Plains Railway (Nebraska), the East Camden and Highland (Arkansas), the Central Iowa, the Louisiana Midland, and the Oklahoma Western (see "Trends," REASON, March 1974). The secret of profitability? Lean, nonbureaucratic, profit-oriented managements and cooperative unions with realistic work rules. Even in New England this phenomenon has been taking place, right under the politicians' noses. The tiny Providence and Worcester Railroad in Rhode Island, formerly a New Haven subsidiary, began independent operations in 1973 and is already in the black; so are the Bangor and Aroostook and the Maine Central. The B and A's owner, Frederic Dumaine, would like to merge that line with the Maine Central and the bankrupt Boston and Maine, Delaware and Hudson, and New Haven lines to form a profitable, stockholder-owned system.

In short, the liquidation of a fallen industrial giant does not mean the destruction of its assets. On the contrary, it means the return of those assets to productive, competent hands. The argument that a company is "too big to fail" is nothing more than a defense of incompetence and inefficiency. You can be sure that those who make this argument aren't really interested in production; their concern is with power—Federal power over yet another area of the economy. It is long past time that they stopped getting away with this kind of obfuscation.

"Too big to fail"? Don't you believe it!

ROBERT POOLE, JR.

LUCIFER'S LEXICON
by L. A. Rollins

agriculture, n. The cultivation of legislators to raise subsidies; the science of growing rich without necessarily growing anything else; pillage in the name of tillage.

altruism, n. Selfless devotion to the welfare of egoists.

amnesty, n. A government's forgiveness of those it has wronged.

foreign correspondent

COMBATTING COLLECTIVISM IN BRITAIN

London. To believe the American press, one would think that the British Conservative Party had elected a fully-fledged libertarian in Mrs. Margaret Thatcher, the new leader of the Party. The *Los Angeles Times* describes her as "the English Barry Goldwater," while *Time* quotes lavishly from her past speeches in defense of free enterprise, private property and individual freedom and responsibility. We are reminded of her stopping the indiscriminate distribution of free milk to school children, and of her recent advice to housewives to stockpile food. She herself confessed that she possessed a larder full of food for an emergency. We are supposed to be aghast.

To be sure, Mrs. Thatcher's victory is a remarkable one. The first female ever to lead a major political party in Britain—and, at that, a party regarded by many as being antifemale (the Carlton Club, possibly the foremost political club—all male—in the world has offered her *honorary* membership)—in a country where there has never been more than one female in the ruling Cabinet, Mrs. Thatcher must surely stand a very good chance of becoming Britain's first female Prime Minister.

But the sex angle is a relatively minor one. Mrs. Thatcher has been called "the only man in the Conservative Party," and not without reason. After Ted Heath led the Party to its second election defeat within one year (it was his third defeat out of four elections), Mrs. Thatcher was the first person to say that she would challenge him for the leadership. Such contests, incidentally, are virtually unknown in Conservative politics. Other challengers only declared themselves when a contest had become inevitable. But her decision was fully justified by the results. After decisively beating Mr. Heath on the first vote, she went on to defeat four male colleagues with a clear majority over all four. She received 146 of the votes of her Parliamentary Party colleagues, while her nearest challenger, Mr. William Whitelaw, the Party Chairman, received only 79.

It was a victory well earned.

Though she is no libertarian, we can expect some revision from Mrs. Thatcher of former Tory collectivist policies.

To be sure, she is the most strident of the former disastrous Conservative Government (1970-1974) in her statement of traditional Tory beliefs. She has openly criticized many of the acts of that government—and publicly acknowledged much of the wrong. After being elected leader, she told an interviewer that one of the biggest mistakes of post-war Conservatism was that Conservative administrations failed to undo socialist measures. "Britain's progress toward socialism has been an alternation of two steps forward with half a step back."

"If a Tory does not believe that private property is one of the main bulwarks of individual freedom," she recently proclaimed, "then he had better become a socialist and have done with it. Indeed, one of the reasons for our electoral failure is that people believe that too many Conservatives have become socialists already."

MIDDLE-CLASS

Mrs. Thatcher is unashamedly middle-class. "If middle-class values include the encouragement of variety and individual choice," she has stated, "the provision of incentives and rewards for skill and hard work, the maintenance of effective barriers against the excessive power of the state and a belief in the wide distribution of individual private property, then they are certainly what I am trying to defend."

She herself—the daughter of a Lincolnshire grocer—rose from humble origins by effort and without inherited wealth or privilege. She won a scholarship to Oxford and is now married to an oil executive. For too long the Tory Party has been dominated by those who inherited much of their position, and were guilty of defending the system by which it had been gained. "Mrs. Thatcher," suggested an editorial in *The Daily Telegraph*, "ought not to suffer from that fatal and characteristic 20th century Tory defect of guilt about wealth. All too often this has meant that the Tories have felt themselves to be at a moral disadvantage in the defense of capitalism against socialism. What Mrs. Thatcher ought to be able to offer is the missing moral dimension to the Tory attack of socialism."

She has already chosen her "Shadow Cabinet," the official spokesmen for the Opposition. And although some have rather unkindly dubbed her team "the same mixture as before," Mrs. Thatcher has made several bold moves. Sir Keith Joseph—"it is my dream that Conservatives will stand for an economy based on free enterprise"—has been appointed chief of policy and research, a task for which he is eminently suited. He is perhaps the most scholarly of the new team, and, although a believer in the "social market economy" rather than laissez-faire, he has a firm philosophical base to his beliefs, and should provide much needed intellectualism for the Conservative hierarchy. He should also help prevent the old pragmatic mistakes of previous Tory administrations from being repeated.

Another encouraging move was the appointment of Sir Geoffrey Howe, a free marketeer, as Shadow Chancellor (Treasury Chief). He again has an intellectual foundation for his beliefs.

Perhaps even more important were the men Mrs. Thatcher *dropped* from her Shadow Cabinet. Robert Carr and Peter Walker, two of the most influential men in the last Tory Government, and both firm believers in wage and price control—despite the disastrous experiments of the past decade—were relegated to the backbenches. Walker commented that he was in agreement with the new leader on most aspects of policy, but sounded ominous when he warned his leader "not to accept the deceptive temptation of a rigid monetarist policy." Carr added, "I get terribly frightened by those people who seem to think [monetary policy] is some automatic mechanism."

POPULARITY

Despite the disgruntlement of several former Government colleagues, Mrs. Thatcher's election seems to be very popular. A spokesman for M. Chirac, the French Premier, commented that Mrs. Thatcher "is not very well known in France. But," he added, "we have nothing against women . . . on the contrary." It would appear that the British have nothing against women either. One week after her election, a Gallup Poll (never too reliable, but perhaps an indication), showed a 4 percent lead for the Conservatives over Labour, compared with Labour's 14½ percent lead just one month before. The vast majority think Mrs. Thatcher will make a good leader of the Conservative Party, while 57 percent think that that Party's chances of winning the next election are improved, and only 7 percent believe them to be worse. And on a recent trip to Glascow, a notably non-Conservative area, Mrs. Thatcher received an enthusiastic welcome from a crowd and had to be protected by the police!

So certainly there is much encouragement to be taken from the election of Mrs. Thatcher. She is known for her toughness

and could well be able to withstand whatever pressures are brought upon her for opposing collectivist policies.

But it is only an interim step. There are still too many liberals (in the American bastardized sense) within the hierarchy of the Tory Party, and still too little *understanding* of the morality of capitalism. It is difficult to have whole-hearted confidence in those who were part of the very same government with Carr, Walker and Heath, and who remained silent when every tenet of the Tory election Manifesto of 1970, promising a free economy and a freer society, was broken.

It is this columnist's opinion that it will not be too long now before Mr. Enoch Powell, a man of proven consistency and real understanding of capitalism and the free society, a man who was the first to openly challenge the collectivism and corporatism within the Tory Party, and who broke with that party at the beginning of this year, prepared to face the political wilderness for his beliefs, leads a majority in the House of Commons, and thus becomes the Prime Minister.

In the meantime, we must comment that Mrs. Thatcher's election represents a great improvement for the Tory Party, signals further—possibly decisive—debate over fundamental principles, and betokens hope for the future.

ADRIAN DAY

Guest correspondent Adrian Day is a graduate of the London School of Economics, where he majored in history. From 1972 to 1974 he was Assistant Director of England's Society for Individual Freedom.

viewpoint

TIBOR R. MACHAN

FOCUSING ON DEFENSE, NOT COOPERATION

With reasonable men, I will reason; with humane men I will plead; but with tyrants I will give no quarter, nor waste arguments where they will certainly be lost.— **William Lloyd Garrison**

I started my present career as a letter writer. I wrote letters galore—to newspapers, magazines, broadcasters, senators, presidents, and everyone else that seemed to me to be in positions of authority and decision over my life.

Later on, however, the telephone acquired more significance as intellectual weaponry, simply because of the increasing frustration tied to writing letters. The phone seemed a more *immediate* means of reaching the source of power. Newspaper editorialists or commentators carry an air of authority, yet they rarely argue their points. For anyone with respect for rational disputation, letters published in newspapers, read on TV, advertised by congressional representatives will be a source of frustration—they are undoubtedly the worst received at the source that prompted writing them in the first place. Governmental agents are the least likely to heed a communication that makes its point by reasonably detailed argument. Only pressure-group mail gets the State moving now. To those who lack the force of threat, the official replies will merely be evasive techniques. Writing will, in short, amount to wasted effort. Phoning, as well, seems useless—and more costly.

These days I still do some writing—mostly to relieve my feelings of powerlessness. But I am getting intemperate in my middle age. Ten years ago I had more hope. I thought well of the power of persuasion. but I did not realize then that arguments, however sound, *cannot move* people who are not themselves embarking on solutions to problems. Mere talking or writing does not imply what the words *should* convey. Ignorance of this paved the way to my trust in those who gave voice to important ideas (however wrong) concerning political matters. I thought that speaking implies rational concern. But I confused the "ought" with a simple "is": language *should* be used rationally, but it *need* not be so used. Human free will allows the debasement of any valuable tool, including language. Although I could have *said* this much even then, in practice I was still impressed with the possibility of genuine communication. What even the brightest people can do with language so as to undercut its worth was only a theoretical possibility for me. So I went on writing, talking, trying to reach with my ideas everyone else who did these things on topics of concern to me. I believed that those I heard and read were conscientious in their use of the medium of language.

It is now clear to me that even the most eloquent use of language can serve people in very lamentable ways. Words can be used to obscure problems, to communicate dishonestly, to drive out meaning instead of utilizing it. This is not necessarily a malicious process—evil is *rarely* malicious and premeditated. Instead the process reveals negligence, evasion, fright, laziness and other traits by which people can avoid acting responsibly, in their best interest.

I am still a firm believer in the fundamental potential of verbal education. Yet I did neglect serious consideration of what one should do when dealing with others who are insensitive to finding serious solutions to problems. Such people, I now know, merely parrot significant human behavior. They engage in clowning, feigning communication, pretending to seek solutions, using language to eliminate its very purpose. From the most sophisticated philosophers to the local plumber, there are those in each field who employ the resources open to human beings for the purpose of spreading distrust of those very resources. (The pathological skepticism that reigns at universities must be seen as a means to eliminate any sort of solutions to the real difficulties standing in the way of obtaining knowledge. The skeptic isn't really an epistemologist but a phony metaphysician —he tries to characterize *reality* as unknowable. And to argue with him makes no sense—he admits of no standard of proof by which one could demonstrate that knowledge exists.)

NEWSPEAK

The real problem for others like myself arises when language is debased in the political arena. / may not worry too much if Ted Kennedy destroyed his life by confusing language. If Jacob Javits feigned talking seriously to his children

or friends—well, that is their problem. But as politicians these people are already unavoidably involved with my life. They *cannot* be "left be" for they *will not* leave me be. Refusing to attend to them is just permitting them to attend to me unchecked. Political activism is not a luxury, not something that I have the option of leaving to the experts, as I might do in a free society. The politicians are organized thieves, burglars, and extortionists against whose actions I cannot call for help as I might call the local cop to help rescue my goods from a burglar.

Just how to handle this problem is not easy to specify in general terms. That is because the problem is highly individualized. Each of us faces it in terms applicable to his own circumstance. *I* have to ask what *I* should do to eliminate the forces standing in the way of my rightful liberty. Others must do the same. But that everyone *ought to* consider seriously measures to be taken to defend himself is a fact of life. At this stage it is advisable to think of what power is available for self-defense. This is a very complicated issue, for the power that is available is understandably hidden. People who might fight the State—by whatever means, just or unjust—will most likely conceal this capacity, lest the IRS or FTC or some other guardian of State-might should take notice and engage in preventive action.

Yet there is a general approach most people could employ. The disenchantment with the State is widespread, to say the least. No doubt many people are party to the creation of statism, but even among these some are now thinking of means of retaliation. Even large businesses employ some executives who see the danger of current trends, who know of what has happened as a consequence of building up Uncle Sam.

At this point those with a coherent alternative and awareness of subtle ways of responding to the current trends have a chance to reach those in the relatively private sector. My rationale takes into consideration that those out of power may be *interested* in solutions that do not enlarge the State. Here communication will have a chance. The mutuality of purpose—to defend against the State—can establish the grounds for it.

It is time to "make war" with the State. One need not engage in self-destructive violence, nor in indiscriminate attack. One can call upon those now awaking to the perils of statism to contribute their energies—even funds—so as to wage a counter-offensive. People in the oil industry, for instance, should now see how wrong it is to call on State aid, and so they might make an effort to counter the consequences of that aid. I would suggest calling on such people—in person, by phone, or by letter—and explaining what must be done to halt present trends. There might have been justification for hope that the State will go away when some of those near it—e.g., Goldwater—made noises of internal dissent. But this option is no longer available. You and I have to engage in a creative discovery process to identify and carry out those actions that will serve to defend us.

It seems to me clear that without this "eternal vigilance" no one can claim to love liberty. John Philpot Curran wrote in 1790:

> *It is the common fate of the indolent to see their rights become prey to the active. The condition upon which God has given liberty to man is eternal vigilance; which condition if he break, servitude is at once the consequence of his crime and the punishment of his guilt.* ◻

Tibor Machan teaches philosophy at SUNY-Fredonia. Dr. Machan's viewpoint appears in this column every third month, alternating with the viewpoints of Murray N. Rothbard and David Brudnoy.

Capital Preservation with Gold Accounting

by Anthony Hargis

In a world that trades and performs accounting with paper currency (accounting) units, definition-looting is the rule and capital preservation is near impossible. Among other things, this essay: identifies the nature of definition-looting; indicates the relationship between rights & a monetary unit; lists the requirements of a monetary unit necessary to preserve rights (capital); shows why the issue of an unmanaged or a managed currency is the issue of respect for the product's rights or the death of the non-productive; compares dollar with gold accounting & explains why the latter enables one to offer lower prices, meet higher costs, and *still* retain more capital than one's competitors; explains the constitutionality of gold accounting and why the government cannot oppose it, neither with law nor force.

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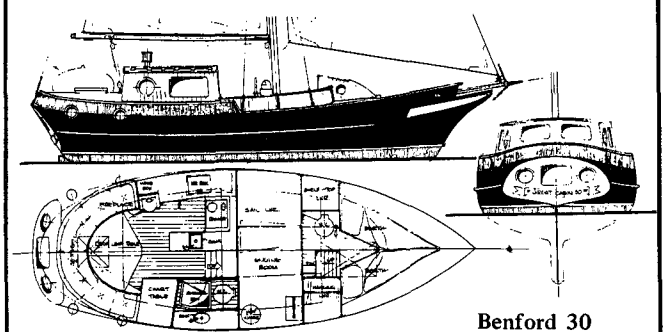

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ANALYZING BIG OIL

During the past year many suggestions for new government controls on the oil industry have been offered: breaking up the larger companies, regulating them like public utilities, or even having the Federal Government enter the business of producing and selling oil and gas. These proposals are based on the image of an oligopolistic, cartelized industry fattening its profits at the expense of consumers and governments. That this image is quite false has been documented recently by Neil H. Jacoby, dean of the UCLA Graduate School of Management.

Jacoby's landmark study, titled "Multinational Oil," covers the structure and behavior of the world oil industry over the past 25 years. He concludes that over this time period the industry has become *increasingly competitive:* "Dozens of new multinational firms have entered the oil business. The market shares of older companies declined markedly. Even though a general price inflation began in 1965 . . . the prices of all petroleum prices *fell* all through the 1960's. The profits of the world oil industry provided only a normal return on investment. There was no evidence of a corporate cartel or of monopoly profits."

Another myth dispelled by Jacoby is the idea that the oil companies created the current energy crisis by encouraging the huge OPEC price increases. This charge is utterly false; indeed, the oil companies vigorously resisted the OPEC increases because, despite the short term effect of increasing their 1974 profits, the price rises will reduce the growth of the market for petroleum products, and will diminish their income in the long run. Interestingly, despite their anti-oil rhetoric, Senators Frank Church and Henry Jackson reached the same conclusion as a result of their committee investigations. It was a *government* cartel—not a corporate cartel—that raised oil prices.

Finally, Jacoby points out the comparative value of private enterprise over governments as international oil producers. "Private enterprises are better qualified than government bureaus to accept the long risks of finding and developing oil resources. They can allocate multinational investments more efficiently. Private management—disciplined by competition—brings greater flexibility of action . . . . Private oil enterprise makes it possible to transfer from the political to the commercial arena many international problems that would otherwise generate frictions among governments."

It is *competition,* not a state-owned oil company, that provides the ultimate "yardstick" by which to measure company performance. And competition in the international oil industry is apparently alive and well.

SOURCE:
- "Oil Industry's Performance Was 'Beneficial to Consumer'," Neil H. Jacoby, *Los Angeles Times,* Mar. 9, 1975.

VOLUNTEER MILITARY SUCCESS

The libertarian members of the President's Commission on a Volunteer Military several years ago argued that the coercive power of the draft was unnecessary, and that intelligently-designed incentives and modern management methods could produce a high-quality Army of volunteers. After a year and a half of experience without the draft, the conclusion is that they were right. Secretary of the Army Howard Calloway calls the all-volunteer Army "an unqualified success" and he is supported by the director of the Rand Corporation's Training and Manpower Management Research Program, Richard V. L. Cooper.

Results to date have been impressive. After a slow start in 1973, the Army achieved its full recruitment goals in 1974. Its improved selection policies have resulted in a more intelligent crop of recruits than under the draft: the proportion with IQ scores in the lowest 10 to 30 percent has decreased from 19 percent to 9 percent over the past year. And the percentage of blacks has increased only slightly, from 19 percent to 22 percent of the total Army force. Thus, the fears of Senator Kennedy and others about a largely-black Army, or one with lowered standards, appear to have been groundless.

How has this been accomplished? Basic pay has been substantially increased, as have fringe benefits. Substantial bonuses are offered for joining a combat unit and for reenlisting. More skill training is offered, and 327 out of 345 job categories are now open to women. Training and living conditions have also been significantly improved. (As one result, the rates of court-martial and AWOL's are down significantly.) To improve quality, the Army is now able to discharge (honorably) any recruit within 180 days if he or she does not measure up "physically, mentally, or morally," during basic training. At one base, nearly 10 percent of the recruits were thus discharged last year. To help pay for all this, the Army is cutting fat. Noncombat forces accounted for 41 percent of all personnel in 1972; this year they will represent only 29 percent.

In short, the Army is demonstrating that attracting personnel for the difficult job of defense is no different in principle from attracting them for any other difficult job. Coercion is totally unnecessary.

SOURCES:
- "Volunteer Peacetime Army Strongest Yet, NATO Told," Joe Alex Morris, Jr., *Los Angeles Times,* Feb. 3, 1975.
- "Volunteer Military System Is Success, Rand Exec Tells Manpower Panel," John Dreyfuss, *Los Angeles Times,* Jan. 29, 1975.
- "This Is the Army, Mr. Jones?" *Time,* Feb. 10, 1975.
- "It's SRO in Today's Army," *Business Week,* Feb. 24, 1975.

AN END TO FAIR TRADE?

Ever since 1937 states have been allowed by the Federal government to pass laws permitting "resale price maintenance," otherwise known as "fair trade." The Miller-Tydings Act of 1937 provides exemption from the antitrust laws for contracts between manufacturers and retailers by which the latter agree to sell only at agreed-upon list prices. In itself, there is nothing immoral about such a contract, even though consumers might not like its effects. However, the picture was radically changed in 1952 when Congress passed the McGuire Act, which made it legal for a manufacturer to bind *all* retailers in a state merely by signing such a contract with any *one* retailer. Now the power of the state was used to coerce merchants who simply responded to the market by offering discount prices. This coercive "nonsigner" provision was common in the 1950's (at one time 45 states had such provisions), but has gradually been repealed in most "fair-trade" states. It still remains in effect in 13 states (California, Arizona, Wisconsin, Illinois, Ohio, Tennessee, Virginia, Maryland, Delaware, New Jersey, New York, Connecticut, and New Hampshire).

In recent months both fair-trade laws and the nonsigner provision in particular have come under increasing attack. Leading the chorus of critics is Lewis Engman, chairman of the Federal Trade Commission, together with Sen. Edward Brooke and Rep. Robert McClory. Engman has thrown the weight of the FTC behind the campaign to repeal both the Miller-Tydings and the McGuire Acts, which is the goal of legislation introduced by Brooke and McClory. Consumers Union has also joined the attack, as has the Justice Department (which found that prices on fair-traded items were 19 to 27 percent higher in fair-trade states). The 1969 economic report of the President estimated their annual cost to consumers at $1.5 billion.

Hopefully, the coercive McGuire Act will be promptly repealed. Unfortunately, if the Miller-Tydings Act's fair-trade provision is also repealed, one of the few remaining loopholes in the antitrust laws will be plugged, and freedom of contract will be dealt yet another blow. The distinction between *coercion* and *contract* has yet to be learned by our legislators.

SOURCES:
- "Congress May Retire Depression Era's Fair-Trade Laws," *Marketing News,* Feb. 28, 1975, p. 5.
- "Repeal 'Fair-Trade' Laws," Lewis A. Engman, *Los Angeles Times,* Mar. 11, 1975.
- "Will Congress End Fair Trade?" *Business Week,* Feb. 17, 1975, p. 82.

GAS DEREGULATION AT LAST?

As economists have pointed out time and again, decades of price control by the Federal Power Commission have led to natural gas being greatly under-priced, and therefore in very short supply. A further result has been steadily declining exploration for new gas, since companies' funds could earn a better return elsewhere. Today's growing natural gas shortages have finally brought these points home to the FPC: in March, the agency formally requested Congress to permit it to decontrol natural gas prices at the wellhead, for all "new" gas production in interstate commerce. (Intrastate gas production is unregulated, and the gas sells for nearly twice as much as gas sold interstate.) The FPC's request is consistent with President Ford's recent call for deregulation of both "new" gas and "old" oil.

Deregulation of natural gas cannot come too soon, according to MIT economist Paul MacAvoy. Under a recent grant from the National Science Foundation, MacAvoy's team of energy experts has built a computer simulation model of natural gas supply and demand. The model projects a 30 percent shortage by 1980 if the present regulatory policies remain in effect. The 10 trillion cubic foot shortage would be worst in the North Central U.S., where it would reach 40 percent, and would be 20 percent in the Northeast, 15 percent in the Southeast, and 10 percent in the West. Permitting free market conditions for new gas is the only effective way to permit supply to catch up with demand, MacAvoy has concluded. The estimated price rise of 65 percent by 1980 would sufficiently increase the incentive to producers, and would simultaneously dampen demand and promote conservation.

MacAvoy's colleagues at the MIT Energy Lab have also pointed out "serious errors and oversimplifications" in the Federal Government's $8 million Project Independence Study. For example, the report incorrectly assumes that increased gas prices will not stimulate increased production, and that use of (price-controlled) natural gas will not increase as oil prices go up. ("This is like saying that people won't switch to chicken if the price of hamburger goes up," noted Prof. Henry D. Jacoby.) All of which makes one wonder on what basis Ford and the FPC advocate deregulation. Perhaps despite the government's gross economic ignorance, they have simply decided that gas deregulation is an idea whose time has come.

SOURCES:
- "FPC Asks Removal of Natural Gas Controls," James L. Rowe, Jr., *Washington Post,* Mar. 5, 1975.
- "30% Shortage Projected for Natural Gas by 1980," AP (Cambridge), Mar. 10, 1975.
- "Government Energy Report Error-Ridden, Study Says," AP (Cambridge), Mar. 18, 1975.

CHARGING FOR ROAD USE

Although the direct costs of highway construction are met by gasoline taxes paid by highway users, this system hardly approximates a free-market pricing system. A good price system balances demand and supply, minimizing shortages and surpluses. Yet our major urban road systems are characterized by extreme supply-demand imbalances, known as rush-hour congestion. Road use at rush hours is essentially "free"; the freeway is in essence a commons, and the result is vast over-use. Likewise, the air in our

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cities is also a commons, with every driver free to use it as a dump for waste products from his automobile.

A proposal to solve both of these "commons" problems by means of pricing has recently emerged from a study at Claremont Men's College in California. To begin with, the researchers calculated the total costs involved in freeway use, taking greater Los Angeles as a study area. Drivers pay little of the costs of congestion and air pollution damage. Further, since freeways are designed to handle peak-load conditions, peak-load users receive proportionately more for their tax dollars than off-peak users. The Claremont researchers estimate that total hidden subsidies to road users amount to some $650 million per year, which works out to $185 per household or $100 per vehicle.

To deal with these hidden costs, the study group proposed a pricing system that would vary the price (toll) based on such factors as the extent of congestion, air quality conditions, and the vehicle's pollution characteristics. The key to making the pricing system work is automatic metering of vehicles. The technology to do this, called Automatic Vehicle Identification (AVI) has been researched by Prof. William Vickrey of Columbia University. The AVI system would include a radio transponder on each vehicle and induction-loop interrogators at entrance and exit ramps, together with an overall computer monitoring and billing system. Such a system could be installed for a total cost of $5 per vehicle per year, over a 15-year life. Each user would receive a monthly bill based on the nature and extent (times of day, etc.) of his road use.

The expected results of such a system would include (1) reduced peak-hour road-use, (2) peak-hour congestion and smog cut by 20 to 30 percent, (3) increased use of car pools and public transit, (4) increased average speeds at rush hours, (5) higher speeds for buses (which are 5 to 10 times cheaper than fixed-rail transit), (6) reduced need for fixed-rail systems, and (7) greatly reduced need for additional costly freeway expansion. Besides these benefits, the acceptance of demand-based pricing for urban roadways would transform them from a "public good" into one which has all the characteristics of a normal market good. It therefore makes the idea of privately-owned roadway systems quite feasible, as well.

SOURCES:

- "Metering Could Ease Freeway Problems," Ward Elliott, *Los Angeles Times,* Mar. 9, 1975.
- "The Pricing of Urban Transportation: Economic Desiderata, Technological Possibilities, and Political Constraints," William Vickrey, #73-ICT-111, American Society of Mechanical Engineers (345 E. 47th St., New York, NY 10017, $3.00).

MILESTONES

- *Medicine.* HEW's latest attempt to regulate the practice of medicine, by requiring a "utilization review committee" to pass on a doctor's decision to admit patients to the hospital, has been challenged as unconstitutional by the American Medical Association. The AMA, joined by 10 patients and 5 physicians, contends that the requirement violates the 1st, 5th, and 9th Amendments to the Constitution. The suit seeks both a preliminary and a permanent injunction against enforcement of the new regulations. (Source: "AMA Suit Charges Medicare Regulations Unconstitutional," UPI (Chicago), Feb. 21, 1975)
- *Civil Rights.* The City of Berkeley's "equal opportunity" hiring program has been ruled unconstitutional by a Superior Court judge in Alameda County, California. "Those portions of the program that provide for racial quotas, noncompetitive examinations, and preferential hiring based on race or sex to the exclusion of merit, experience, and record, must be deemed arbitrary and discriminatory," the judge declared. He found that the program, which required the city to employ the same percentage of each race and sex as exists in the community, violated the 14th Amendment and the Civil Rights Act of 1964. (Source: "Berkeley Ordered to Stop Equal Opportunity Hiring," AP (Oakland), Feb. 14, 1975)
- *Taxes.* A legislative audit of California's income tax operations has disclosed the interesting fact that some 288,500 persons who owed taxes in amounts up to $100 did not file state tax returns for 1972. Due to personnel shortages, the state's Franchise Tax Board decided not to take any action against the under-$100 cases, preferring to spend its enforcement funds on larger cases. Thus, over a quarter million Californians successfully resisted state income taxation in 1972. (Source: "State Losing $60 Million Annually in Income Taxes," William Endicott, *Los Angeles Times,* Jan. 29, 1975)
- *Research.* What billions of dollars in Federal funding have failed to accomplish, a small private firm has achieved for an R & D expenditure of $18 million. KMS Fusion, Inc. has successfully demonstrated a process for using laser energy to implode a pellet of fusion fuel and produce thermonuclear energy—an important step on the road to controlled nuclear fusion power. KMS's initial announcements last spring were greeted with skepticism from the largely government-supported scientific community. But the skepticism was dispelled at a meeting of the American Physical Society last fall where KMS researchers presented their results to 1200 physicists. Apparently, private enterprise research will now be taken more seriously. (Source: "Laser Fusion: One Milepost Passed—Millions More to Go," *Science,* Dec. 27, 1974, p. 1193)
- *Censorship.* Another government restriction on communications freedom has been abolished, this time in Italy. That country's Constitutional Court has overturned a 1973 government decree that forbade private cable television and relay station operators from bringing programs from other countries into Italy. The ruling was in response to an appeal by a Turin cable company and operators of over 2000 microwave relay stations located on Italian hilltops. Italy's state radio and television monopoly, RAI, will now have to face competition, if only from abroad. (Source: "Italian CATV Ban Revoked," *Urban Telecommunications Forum,* Oct. 1974, p. 11)
- *Health.* California laws forbidding doctors and patients to use the controversial drug Laetrile (B_{17}) as an anticancer agent have been declared unconstitutional by a Municipal Court judge in Los Angeles County. Judge Sam Cianchetti ruled that the statute, which prohibited use of any drug or health treatment not approved by the State Department of Health, was overbroad and interfered with the physician's right to treat a patient as he believes necessary, as enunciated by the U.S. Supreme Court in decisions on abortion and birth control. Unfortunately, in a case based on similar arguments in a Superior Court in San Diego, the same doctor and five others have been convicted on felony charges of conspiring to sell Laetrile. Thus, the ultimate legal status of Laetrile remains unclear. (Source: "Laetrile Charges Dismissed," *Los Angeles Times,* Feb. 4, 1975)

This column reports trends in the advancement of individual liberty and the rediscovery of economic freedom. Readers are invited to submit material of potential interest.

LUCIFER'S LEXICON
by L. A. Rollins

America, n. The land of debris and the home of the knave; the Land of Opportunism; the Compromised Land, the land of bilk and money.

brinkmanship, n. A diplomatic game of "chicken," played with H-bombs.

bureaucrat, n. A member of the meddle class.

Congress, n. A nest of vultures engaged simultaneously in feathering and fouling their habitation.

conservative, n. One inclined to preserve the statist quo. Franklin Roosevelt said, "A Conservative is a man with two perfectly good legs who, however, has never learned to walk." But he omitted saying that a Liberal is a cripple who wants to force somebody else to pay for his wheelchair.

WHAT SHOULD GOVERNMENT DO FOR THE ECONOMY?

LAISSEZ FAIRE!!

Instead of asking what government should do *for* the economy, we should ask what government is doing *to* the economy. Because it's doing it again just as it has in the past and with the same predictable results. Guided by the pseudo-scientific theories of Keynesian economics, the economy has been "fine-tuned" for over 40 years. But suddenly everything is falling apart and the Keynesians are at a total loss to understand or explain what is happening. All they can offer is more of the same policies which brought us to this point in the first place.

Is there an alternative to this insane cycle of intervention and disasters? Yes—it's called the free market—or more specifically, Laissez Faire Capitalism. There is a rich and comprehensive body of literature which shows clearly why attempts to regulate the economy always fail and why a free market not only works but is the only moral and just economic system. If we are to regain our liberty and achieve a stable economy, we need to first understand the causes of the present economic disaster and recognize that Laissez Faire is the only rational alternative.

LAISSEZ FAIRE ECONOMIC THEORY

Two excellent basic introductions to laissez-faire theory are **Essentials of Economics** (Ballve, $1.50) and **Economics in One Lesson** (Hazlitt, $.95). Both are clear, easy to understand explanations of the free market process. Ballve offers a more theoretical approach while Hazlitt uses concrete examples to show the undesirable effects of government interventions. Hazlitt is especially good at cutting through the complexities and getting to the heart of the subject.

Another good introductory book, **The Road to Serfdom,** (Hayek, $2.95) shows how regulations and intervention by government lead step by step to a loss of freedom and the transfer of power from the individual to the state.

On a more sophisticated level, **Power and Market** (Rothbard, $3.00) offers a comprehensive ethical and economic analysis of government intervention into the market. Covering a wide range of regulations such as price controls, subsidies and taxes, it shows how each lends to injustices and inefficiencies.

The most rigorous and thorough examination of Keynesian interventionist theory is **Failure of the New Economics** (Hazlitt, $9.95), a refutation of every detail of those policies which have brought the U.S. to its present economic predicament.

By far the most complete and systematic defense of the free market is **Human Action** (von Mises, $17.50). Starting with basic assumptions about human activity, Mises examines every aspect of economic theory and economic policy and integrates them into a logical, consistent whole. For easier reading, **Planning For Freedom** (von Mises, $3.00) offers a collection of essays covering a wide range of arguments for the free market. Another insightful book by Mises is the **The Anticapitalist Mentality** ($2.50), which examines the causes of psychological hostility to capitalism.

INFLATION

Two easy-to-understand books that explain the process of inflation are **What You Should Know About Inflation** (Hazlitt, $1.25) and **What Has Government Done To Our Money?** (Rothbard, $2.00). Hazlitt's book is a clear and succinct presentation of the theory and practice of government money inflation from almost every angle. Rothbard's book is an examination of the nature and function of money and the destructive effects of government intervention in the money supply.

Careful examination of two of the worst inflations in history shows that inflation is caused by a rapid increase in the supply of money faster than the increase in the supply of goods and services. **Fiat Money Inflation in France** (White, $1.25), a study of the hyperinflation in France toward the end of the 18th century, is a clear and frightening account of the long-term consequences of inflation. The events that occurred then sound startingly similar to events of today. **Economics of Inflation** (Bresciani-Turroni, $12.50) is an exhaustive technical investigation of the terrible German inflation of 1914 to 1923. The frenzied rounds of budget deficits, spending schemes and easy money policies that finally led to total collapse could all too easily happen in the U.S., given current economic trends.

HISTORICAL MYTHS ABOUT CAPITALISM

The Incredible Bread Machine (C.S.I. Staff, $1.95) is a basic, easy to understand primer that dislodges many of the popular historical myths about capitalism, showing in example after example—Robber Barons, monopolies, the Great Depression, etc.—how government regulations and interventions, not the free market, have been the causes of the evils attributed to capitalism.

The argument that laissez-faire capitalism leads to monopolies is devastated by the historical evidence presented in **The Triumph of Conservatism** (Kolko, $2.95). This scholarly analysis shows that the economic trend prior to the antitrust laws was toward increasing competition, not monopoly. The antitrust laws were what, in fact, stifled competition. This is spelled out in greater detail in **The Myths of Antitrust** (Armentano, $11.95), a scholarly historical analysis by a laissez-faire economist.

Two other analyses which explode other myths are **Capitalism and the Historians** (Hayek, ed. $2.95) which deals with the alleged evils of the Industrial Revolution, and **Monetary History of the U.S.** (Friedman & Schwartz, $5.95) which refutes the idea that government banking intervention is necessary for monetary stability.

LIBERTARIANISM

But laissez faire is not just an economic slogan. The principle of laissez faire—noninterference in the affairs of others—is applicable in all areas of social and political life. The political application of this principle is presented in two comprehensive books, **For A New Liberty** (Rothbard, $8.95) and **Libertarianism** (Hospers, $2.95). Two other useful libertarian analyses are **The Machinery of Freedom** (D. Friedman, $2.25) and **Our Enemy the State** (Nock, $2.95). Friedman's book is a defense of society without government based on economic utilitarian grounds. Nock's elegant essay examines the destructive effect of State power on individual responsibility and initiative.

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book review

Reviewed by DEAN M. SANDIN

THE INCREDIBLE BREAD MACHINE. By Susan Love Brown, Karl Keating, David Mellinger, Patrea Post, Stuart Smith, and Catriona Tudor. San Diego: World Research, Inc., Campus Studies Institute Division. 1974. 192 pp. $4.95 (hardback), $1.25 (paper).

The Incredible Bread Machine was originally a privately published 286-page "study of capitalism, freedom—and the State," as it was subtitled. In vigorous fashion, author Richard W. Grant discussed the history of capitalism in America, the moral-political principles that underlie the free society (individualism, private property, capitalism), and their application to understanding the government-created political and economic problems that overwhelm us today. The viewpoint was straight libertarian—back in 1966 when that word was not yet in general use. It was a good book to give a friend who needed an introduction to capitalism and freedom. It sought to make converts. It skipped the fundamental philosophy and economic theory that constitutes the bedrock of libertarian thought, while still tackling the job of unifying the moral and utilitarian aspects of capitalism into a single picture, presumably on the premise that even if everyone *ought* to read Ayn Rand and the Austrian economists, not everyone's thought processes are such that he or she will get started that way.

Campus Studies Institute (CSI) bought the rights to *The Incredible Bread Machine* last year and has now published a new version. They have rewritten it thoroughly, shortened it, rearranged it, and added some up-to-date examples of statist interventions into our lives. They have also retained Grant's satirical poem, "Tom Smith and His Incredible Bread Machine," in shortened form from the original edition, in which Tom Smith invents an incredible bread-making machine that feeds the world for less than a penny per person per day—until the bureaucrats start tinkering.

CSI is a nonprofit organization located in San Diego and its purpose is to reach college students with the ideas of the free market. CSI promotes laissez-faire *libertarian* economics, sending out tens of thousands of mailing pieces each year, professional-appearing leaflets that suggest a talent for marketing ideas far beyond the tender years of most of the staff (the authors average 24 years of age). These pieces go to college students and their professors on a number of campuses. As a consequence, CSI receives thousands of letters per year from students, replying personally to each one.

In this way the CSI staff have gained broad experience in dealing with the intellect of the run of today's college youth. They know, through a wide exposure to the thinking of their correspondents, what it takes to reach the regular student—not the ones who are naturals for free market ideas, but the ones who have to *grow* into comprehending and accepting an ideology. It is those students (and nonstudents, for that matter) to whom CSI has directed this new version of *The Incredible Bread Machine*. Thus they allowed almost nothing in *IBM* that could be called "preachy" (their term), as opposed to objective—a false dichotomy, to be sure, but that's the way kids have been taught to think in this age of moral and epistemological relativism. This does not deny the necessity for a wholehearted, uncompromising advocacy of laissez-faire in the book, and it is there. Nor does it suggest that certain principles have been played down in order to achieve maximum "practical" influence. None have. It is just too bad that an argument's tone, rather than its content, is often what causes it to be rejected.

After a short introduction presenting several cases of the machinery of the State grinding up individuals for breakfast—an appeal to the reader's sense of elementary justice—*IBM* launches into history ("The Bread Also Rises"). It draws the crucial distinction between laissez-faire and political plunder: the difference between, on the one side, J. J. Hill's Great Northern Railway and, on the other, the Big Four of California, the Erie Ring, the Credit Mobilier, and other early symbiotic alliances of big business and the State. Though necessarily brief, this account is no conservative-minded superficiality. We find the revisionist notion that regulation of the economy was largely due to the pressure of the biggest businessmen, who sought to suppress the "instability" of competition and guarantee themselves the top spots forever in a controlled status quo. If monopoly was a threat around the turn of the century, it was because of political manipulation, not the market—which was becoming *more* competitive and decentralized, not less.

The following chapter continues the saga of capitalism in America ("The Sun Sinks in the Yeast"). It briefly draws on the Austrian explanation of the business cycle, and in particular, on Rothbard's *America's Great Depression,* to debunk the myth that depressions are an inherent peril of the market. The most important points about the Depression era are presented: that the Fed caused the boom and bust of the 1920's, with its mad inflation; that Hoover was an outright statist; that his administration and the New Deal could only *cause* problems with their massive interventionism; that FDR's confiscation of gold was one of the most depraved political swindles in history; and that the success of Keynes' quackery was not due to any applicability of it to reality, but to the rationalizations it provided for those already intellectually and politically dedicated to the planned society.

MODERN TOPICS

Switching from history to modern issues, the third chapter talks about "the old trick of turning every contingency into a resource for accumulating force in the government." Examples covered are: the manipulation of the money supply, antitrust and monopoly, minimum wage, labor unions, and price controls. Since this chapter treats economic issues from a practical perspective, the libertarian reader looking for a uniquely libertarian approach here will notice that it could have appeared, as is, in a strictly conservative journal or book. This is in line with the intent to postpone the main exposition of principles to *IBM*'s third general section.

Nonetheless, the following chapter does introduce moral considerations into its coverage of three more issues—civil rights, welfare, and social security—if only because their natures demand it: "The State has stuck its nose into moral affairs and has used these issues to broaden the base of its own power. Particularly in [the above three areas], the importance of individual freedom has been obscured under the guise of helping unfortunate people whose plight, in many instances, was most likely caused by government in the first place." [p. 99]

Libertarians are sometimes quick to (properly) condemn the excesses of the modern civil rights cause—forced integration of private property, ethnic quotas, preferential treatment of certain minorities—while failing to focus on the full historical context. *IBM* balances its discussions: "The Civil Rights Movement in the United States sprang up in response to

the negation of individual rights—a negation that had its roots in enslavement of black individuals and the maltreatment of members of other minority races and ethnic groups. Thus racism was systematized and intensified by government intervention, and the real issue—individual rights—has been obscured."[p. 100] The section on welfare is short, but excellent. There is no conservative arguing that government aid to the poor is wrong because it leads to a weakening of the social moral fiber and order. *Rights* are the reason. And with social security, ample evidence is presented to justify the libertarian contention that this so-called retirement and insurance program is a vicious political fraud and moral outrage.

The final third of the book is devoted to the moral foundation of laissez-faire. This is what the libertarian reader has been waiting for, and it is what the uninitiated reader has been led to by the preceding material. "The Bread of the Matter" introduces Richard W. Grant's three principles, then each is allotted its own chapter: "Staff of Life" for individualism, "Better Bread Than Dead" for private property, and "Baker's Dozen" for capitalism.

The treatment of individualism makes the essential contrast between self-interest and self-sacrifice—the moral good of egoism versus the evil of altruism—and makes it clear that the individual's natural obligations are to his own values, not to society. The chapter on property is based on an article by William W. Bayes in *The Freeman.* My only criticism is academic: the chapter generalizes the concept of property so that rights and property are coequal and nearly identical. It is of course vital to realize that rights to property are just as natural as rights to one's own life and person, and that to separate them in practice is to maintain an artificial and hence destructive distinction. However, the concept of property remains genetically dependent on the concept of rights. This chapter serves well enough to introduce the natural rights view of property, but to say that "there is no right which is not property" [p. 141] seems a possible source of confusion, especially to those struggling with such ideas for the first time.

Finally, "Baker's Dozen" links capitalism's moral and practical aspects. We see that liberty and the free market cannot be divorced, in theory or in history, and that tyranny and economic controls are the two sides of the same well-worn coin. This is the success of *The Incredible Bread Machine:* that the reader new to its ideas cannot come away without realizing that capitalism does not consist merely of the mechanics of the market economy, but that it entails a moral-social philosophy—an entire view of man. It is this very realization become widespread and taken seriously that will eventually make possible a free society. Great strides may yet be made in our own time. *The Incredible Bread Machine*—the product of six bright, unsheltered, effective young men and women (and their dedicated bosses)—can play a part in making them.

Dean Sandin graduated from UCSD with a degree in physics and now works as a computer programmer in San Diego, California. He has been a libertarian activist for over 10 years.

LUCIFER'S LEXICON
by L. A. Rollins

cynicism, n. The vice of disbelieving in the virtues of hypocrites.

dairyman, n. A man who milks the bovine public.

do-gooder, n. An evil-doer.

Fabian, n. A creeping socialist.

faith, n. Belief in things unseen, unheard-of, and unspeakable.

half-truth, n. A half-falsehood.

IRS, n. The Black Hand at the end of the long arm of the law.

Have You Seen...

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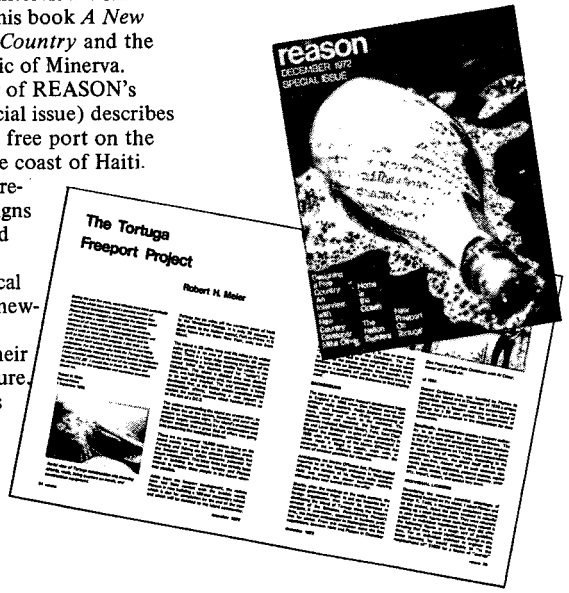
This special issue deals with a variety of libertarian-oriented new country, tax haven and free port projects. Leading off the issue is an in-depth interview with Mike Oliver, discussing his book *A New Constitution for a New Country* and the founding of the Republic of Minerva. Robert H. Meier (editor of REASON's May 1974 special financial issue) describes the project to develop a free port on the island of Tortuga off the coast of Haiti. Engineer Will Barkley presents his innovative designs for floating, ocean-based communities, and John Snare presents a historical overview of libertarian new-country ventures—and makes predictions on their probable success or failure. Order your copy of this collector's item today.



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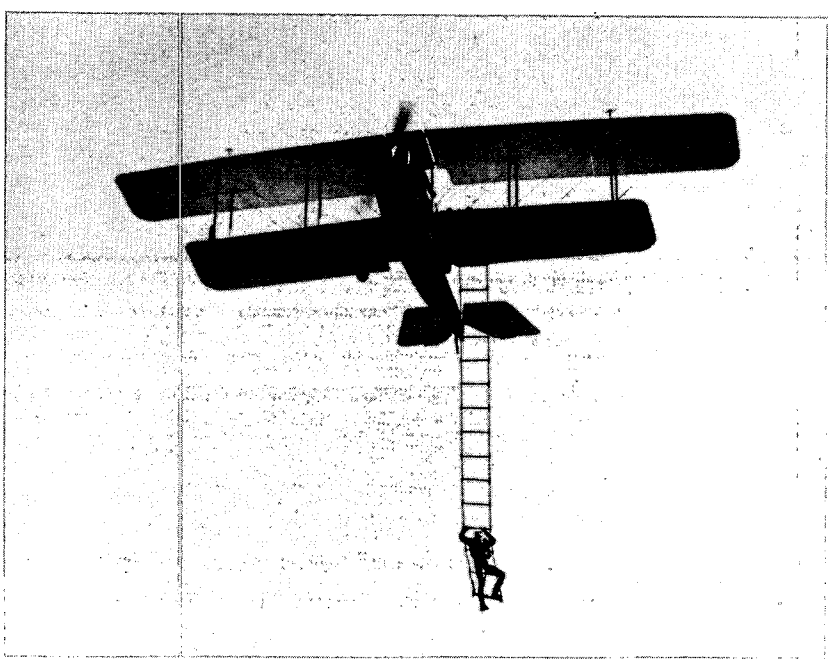
• The great age of barnstorming aviators is recreated in a satisfying, down-to-earth fashion in **THE GREAT WALDO PEPPER.** Robert Redford makes the most of a winning role as the prototypical handsome daredevil, piloting a biplane through a series of hair-raising stunts for thrills and glory. He is ably assisted by a supporting cast which includes Bo Svenson as a reluctant partner, Bo Brundin as a German flying ace, Susan Sarandon as a would-be wing walker, and Margot Kidder as the girl who's forever patching up Redford to fly another day. All of the breathtaking flying scenes are real, with the actors doing much of their own stunt work. William Goldman, author of *Butch Cassidy and the Sundance Kid,* reprises the theme in this story of flying aces, whose days of glory are fading as the world moves into a more settled, less romantic era. The new age is heralded by an abrupt change of mood about halfway through the film, a little too abrupt for the audience to properly assimilate. As the fickle fans move on to new thrills, government regulators move in for their share of the action, dooming the flying circuses. Redford's revolt against the foreshortening of his career provides grist for a rousing finale of aerial acrobatics, a tribute to those who seek adventure for its own sake. Rated "PG."—**Charles F. Barr**

• Ken Russell's production of **TOMMY** is an appalling example of what can happen when a filmmaker encounters a medium he does not understand. His destruction of one of the great works of rock music can only be compared to Mike Nichols' savaging four years ago of *Catch-22;* and why The Who allowed him to get away with it, I can't imagine. What Russell has done is to take the original story, strip it of most of its emotional content, and deliver a blatantly literal interpretation of the basic plot, heavily overlaid with his own patented brand of kinky imagery. The music has been transmogrified from straight-on hard rock to a screamy kind of pop. Most of the original orchestrations have been lost. The focus of attention has been shifted from Tommy to his mother, played with frantic energy by Ann-Margret. Oliver Reed portrays her loutish lover, who kills Tommy's father and precipitates the trauma that drives Tommy deaf, dumb and blind. Roger Daltry of The Who gives little depth to the role of Tommy, though he improves considerably after the "cure." The one effective contribution by Ken Russell is the "Eyesight To The Blind" number, which features a pilgrimage to a cathedral for the worship of Marilyn Monroe. It is more than offset, however, by the spectacle of Ann-Margret writhing in a sea of excremental chocolate and beans. (Russell is evidently heavily into Freudian anal theories.) Tina Turner screams incoherently through the "Acid Queen," though Elton John is effective as the Pin Ball Champ. Some of the images in *Tommy* are as vile as those in *The Exorcist,* and impressionable children should stay away at all costs. As for fans of the record and stage versions of *Tommy*—well, maybe someday someone will do it justice with another movie. Rated "PG."—**C.F.B.**

• Over the years, Neil Simon has built a reputation as the grand master of desperation comedy. But lately the desperation has taken over and the comedy has fled. **THE PRISONER OF SECOND AVENUE** is not all that funny, and Melvin Frank's direction gives the film a tone of chronic, unrelieved hysteria. Jack Lemmon weaves in and out of character as an urban nebbish, coming unstrung as the vicissitudes of fate descend upon him all at once. His portrayal is filled with such whining petulance that any sympathy the audience may have for him is dissipated in short order. Anne Bancroft does somewhat better as Lemmon's long-suffering wife, though her character seems to have been borrowed whole from Suzanne Pleshette on *The Bob Newhart Show.* Either New York is running out of material, or Simon is. Rated "PG."—**C.F.B.**

• I have always suspected that Barbra Streisand's ability as an actress is considerable, although it is not easy to be sure. Her roles tend to get lost in her overwhelming personality, and if we feel this to be less so in **FUNNY LADY,** it is only because the role and the personality are more evenly matched. The result is not an unqualified success. Streisand has great charm and style and she looks magnificent, but the mature Fanny Brice demands nothing of her that she could not deliver in her sleep: the superstar playing the superstar, confidently telling the young Billy Rose (James Caan) that he needs her and both of them knowing it to be true. Caan, by contrast, always manages to appear a different person in each of his films and again gives an impressive performance, an especially commendable achievement in light of the uninspired material he has to work against. The film begins with Fanny Brice as an established Ziegfeld star and leaves her as an established Hollywood star. In between, nothing of great consequence happens, and except for a few Billy Rose standard tunes, the music is easily and quickly forgotten. After the success of *Funny Girl,* the lure of a sequel must have been irresistible, but this one was too easy. Now that it has been done, it is time for Streisand to take on a role that will prove herself the exceptional actress she promises to be.—**James F. Carey.**



Robert Redford completes a car-to-plane transfer in THE GREAT WALDO PEPPER.

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DAVIS E. KEELER

EXPENSIVE WALLPAPER

Although there is much to be said for hard work and perseverance, most of us would probably prefer to acquire our fortune by less strenuous means. The scenario of choice would be to invest a few dollars in a budding young company which hits it big in freeze-dried transistors, thus enabling us to grow rich on capital gains. Unfortunately, most budding young companies seem to encounter an early frost and you are left with nothing more than a handsome certificate to hang in the den.

Sometimes the company simply disappears, with not so much as bubbles or an oil slick to mark its fate. Such is life in the dog-eat-dog world of cutthroat capitalism where the bones of hapless investors bleach in the sun.

Your author himself has several of these priceless souvenirs tucked away. There is Emerald Isle Copper Company, a handsomely engraved certificate with a picture of a lady sitting on a rock surrounded by bear and cougar, while a hearty miner wields a pick in the background. And then there's Wyoming Oil Company (I have a weakness for the extractive industries) with its stately elk grazing amidst stately oil derricks.

On the other hand, you shouldn't dismiss these old dreams simply because you haven't heard anything from the company for years and you can't find any listing for the name. People move and records become confused. In addition, firms change their names or merge with others. There are an average of 6,000 company mergers in North America every year.

For example, a lady in Winnipeg found 400 shares of something called Sudbury Basin Mines Ltd., which her late husband had bought for $1,400 back in 1937. The company had stopped issuing reports 30 years ago and had seemingly dropped into that bottomless void which swallows up so many small mining ventures. But our lady persevered and eventually discovered that Sudbury Basin Mines had been acquired by another firm in a share trade and that she was entitled to 8 shares of Giant Yellowknife and 416 shares of Falconbridge Nickel. The widow's holdings turned out to be worth over $25,000!

While most old certificates may indeed be worthless, there is always a chance. A gentleman in the early 1950's bought 2,000 shares of Provo Gas for $3,000. Over the years he lost track of the company and assumed it had gone under. Then about 15 years later he had the company researched and discovered that Provo Gas had been taken over by Dome Petroleum and he now owned $20,000 worth of stock in Dome.

If you have old shares in a company which is no longer traded, you can try to get help from your stock broker. For Canadian mining companies, the Toronto *Northern Miner,* an industry-oriented newspaper, helps its readers locate obscure old companies. Another possibility is to try to locate the transfer agent listed on the certificate. Another method is to write to the commissioner of corporations or secretary of state who issued the corporate charter to see if they have any records of a merger or name change or some other clue to the firm's fate.

If these do-it-yourself investigations fail, there are firms which make a business of researching old companies. One such firm, Stock Market Information Service, is run by a French Canadian lady named Micheline Masse. Ms. Masse started by collecting old certificates to decorate her walls. When she discovered one that was worth $2,000, she began to take a more serious interest in the matter. Today her firm has two full-time and three part-time employees and has built up files on 25,000 companies around the globe that cannot be found in the published reference books.

SMIS requires a photocopy of the certificate and charges a flat $20 for a search. Ms. Masse estimates that 80 percent of the certificates turn out to be valueless, but 10 percent have turned out to have assets, and another 10 percent—such as shares in dormant mines—have potential. SMIS is located at 235 Dorchester Boulevard East, Suite 410, Montreal 129, Canada.

Another firm which has advertised to trace old companies is R. M. Smythe & Co., 170 Broadway, New York, NY 10038.

OLD BONDS

If you buy an old certificate from a second hand dealer, you should be aware that if the share is issued to a named person you probably won't be able to claim its value. You may be able to claim the value if the certificate is in bearer form. Bonds are more commonly in bearer form than are shares. If the certificate has been marked "cancelled," it is almost certainly of no value, even if the company is still alive.

In addition to old share certificates, there is a potential for hidden wealth in the old bonds of defunct governments. Although the Peoples' Revolutionary Council normally begins by denouncing the foreign debt of their bourgeois capitalist lackey predecessors, as they later become more established and start to think in terms of the business of running a country the notion of foreign borrowing becomes more appealing. At this point they encounter gentle reminders from the committees of foreign bond holders that it would be nice to do something about the old accounts. This results in a real pressure on the new governments to make some sort of settlement on the old bonds, if only a nominal one, just to tidy up the regime's credit image. As a consequence, pre-revolutionary czarist and Chinese bonds still trade from time to time in New York or London. If you watch the Foreign Bond column of the *Wall Street Journal,* you will see such rare birds fly by from time to time. This is particularly so when relations between the U.S. and some communist state are improving, as was the case a year or two ago with the bonds of the pre-communist Polish government.

Sometimes these foreign bonds are settled at full value. One lucky investor bought up Japanese government bonds in 1946—to paper his recreation room. Considering the condition of Japan in those days, the 1¢ on the dollar he paid was probably a high price. Ten years later the Japanese government decided to pay off its foreign debts and he found that his wallpaper had appreciated 10,000 percent!

As I said, while there is much to recommend hard work, there are other ways. ◻

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Davis Keeler's Money column alternates monthly in REASON with John J. Pierce's Science Fiction column.

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publisher's notes

• **A NICE WORD FOR N.R.:** From time to time, we have noted positions taken by leading conservatives which support a "Big Brother," paternalistic approach to the role of the state. Although it is commonly assumed that conservatives are vigorous defenders of property rights and economic freedom, REASON readers are aware that frequently the conservative rhetoric of limiting the size of the state is not consistently applied.

Recently, however, prominent conservatives have been reconsidering such issues as "victimless crimes," where consensual adult conduct is made criminal even though no harm to others can be shown. In the past year, the leading conservative publication, *National Review,* has carried articles supporting gay rights (David Brudnoy) and decriminalizing pot (Bill Buckley). *N.R.*'s Washington correspondent, George Will, has called for the decriminalization of prostitution. In short, many thinking conservatives are recognizing that laws attempting to prohibit private consensual conduct are costly and ineffective, immoral and counterproductive.

Each time *N.R.* has drifted away from the traditional conservative line, it has lost subscribers. *N.R.* also lost support for its failure to strongly support Richard Nixon and even for attacking his New Economic Policy. According to Buckley, 1974 was *N.R.*'s "toughest year"—it sustained a deficit of over $300,000 and lost about 5,000 subscribers (bringing its circulation down to about 95,000, compared with REASON's 12,000+ paid subscribers).

It would be a lot easier for *N.R.* to shift towards relatively more libertarian positions if libertarians would help support *N.R.*—by subscribing and by writing them when they do something good. We're told that *N.R.* is very responsive to letters from paid subscribers. And if *N.R.* got enough support for taking profreedom positions, it has been suggested that *N.R.* might become the libertarian movement's biggest convert.

• **J.F.K. ASSASSINATION:** In the wake of Watergate, there has been substantial interest expressed in challenging the findings of the Warren Commission that Lee Harvey Oswald was the lone assassin. Now a former CIA technician has used a new lie-detection technique—a Psychological Stress Evaluation (PSE)—to show that Oswald was telling the truth when he denied killing Kennedy in 1963. According to George O'Toole, who worked as a CIA computer specialist, the PSE technique—used to analyze critical tapes to see if the person was under stress when he or she speaks—has not only upheld Oswald's denial, but it has also cast doubt on the truthfulness of other witnesses who testified before the Warren Commission. O'Toole's findings are contained in a new book, *The Assassination Tapes* and were published in the lead article in the April issue of *Penthouse.*

Doubts concerning the shooting of Governor George Wallace have also been raised. In an appearance on NBC's *Today* show on April 7, Wallace's son challenged the conclusion that Arthur Bremer was acting alone, and asserted that Bremer—who stalked Wallace for months—was part of a conspiracy.

Tough questions have also been raised about the assassinations of Robert Kennedy and Martin Luther King. As we noted in this column last month, a recent national poll found that 69 percent of Americans believe their government consistently lies to them. We're aware that it's much easier to allege a conspiracy than to prove the existence of one, but we wouldn't be particularly surprised if tangible evidence was developed showing a conspiracy in one or more of these shootings.

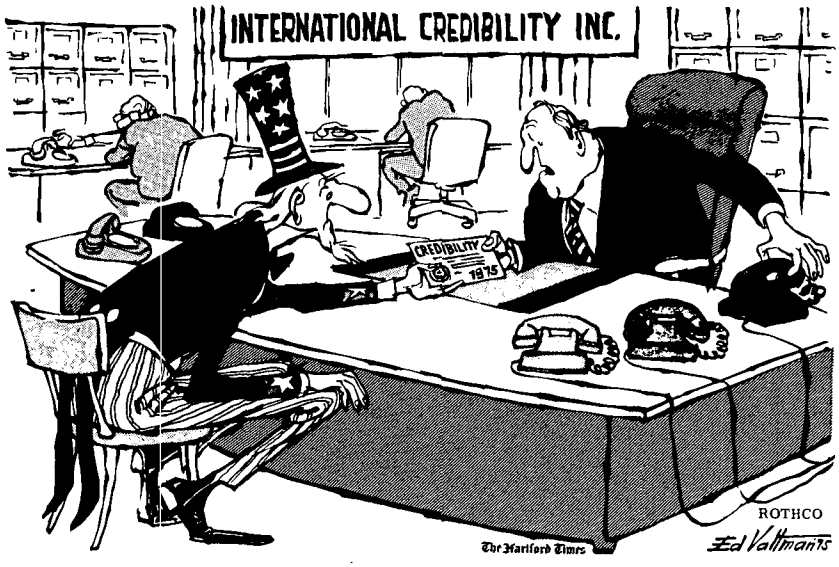
• **EDITORS' ACTIVITIES:** REASON Editor Robert W. Poole, Jr.'s article, "Criminal Justice: A Systems Analysis Approach," was published in the Winter 1975 issue of *Law & Liberty*, a quarterly publication of the Institute of Humane Studies (sample copy available from IHS, 1177 University Drive, Menlo Park, CA 94025).

Editor Manuel S. Klausner's editorial on disbarment of attorneys (REASON, Oct.) was excerpted in the *Los Angeles Daily Journal* (April 9) and, as Chairman of the Libertarian Law Council, he was invited in February to deliver an editorial reply denouncing Ford's energy tax on KNBC-TV in Los Angeles.

Senior Editor Tibor Machan's new book, *Human Rights and Human Liberties*, will be out from Nelson-Hall this spring. His article, "What About the Poor?" was published in *The Alternative* (April), and Machan recently had articles published in *Theory and Decision* (Dec.), *New Guard* (March) and several other journals.

• **HELP WANTED:** From time to time, openings appear on the staffs of Congressmen sympathetic to the free market. The jobs generally go to whatever qualified person shows up at the right moment. Now, a group of libertarians working on Capitol Hill has taken a step to increase its numbers. It wants to hear from anyone with the competence and desire to work on the inside of the legislative process.

If you are interested in joining this group of nearly two dozen, and welcome hard work with pay to match, contact Dr. Arthur Carroll, c/o Senator Brock, U.S. Senate, Washington, DC 20510. Include a resume and a statement of job interest, party preference, etc. Applicants with degrees in economics and political science are sought in particular, although anyone with a demonstrated command of a certain field (e.g. transportation, health care policy) should not shy away from this chance to help free the country. ◘



'Excuse me for a minute — I have to check it with our central filing bureau'

SPECIAL REPORT—1975 MONETARY CONFERENCE

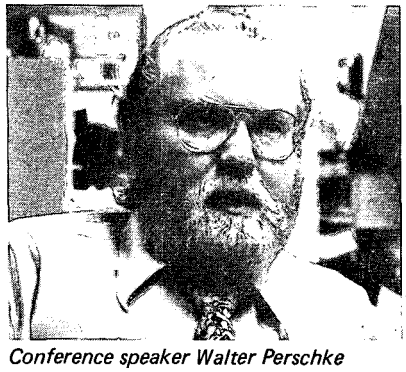
Frontlines correspondent **Robert Poole, Jr.** reports:

From Thursday evening, March 13 through Sunday, March 16, approximately 970 people gathered at the Fairmont-Roosevelt Hotel in New Orleans for what turned out to be the largest conference of its kind ever held. The event was the **1975 Conference on International Liquidity and Monetary Reform,** sponsored by the **National Committee for Monetary Reform** (formerly the **National Committee to Legalize Gold**). Although officially sponsored by the Committee, the Conference was in fact a joint effort with the **Libertarian Party,** aimed at raising funds for both organizations and exposing the attendees to libertarian ideas. In both respects the Conference must be rated a considerable success.

The Conference sessions began on Friday morning and continued all day Friday and Saturday, presenting some 25 high-powered speakers over the course of four sessions. Sunday was given over to specialized workshops—on South African gold stocks, Canadian golds, silver trading, Swiss banks, offshore banking and tax havens, counterfeit coins, etc. An exhibit room outside the main meeting room provided table after table of books, investment newsletters, freeze-dried foods (and even counterfeit gold bars) on sale by the inevitable army of capitalist entrepreneurs.

The list of speakers reads like a who's who of hard-money free market advocates and spokesmen: **Dr. Harry Schultz, Dr. Anthony Boeckh** of the *Bank Credit Analyst,* **Robert Bleiberg** of *Barron's,* **Donald Hoppe, Alexander Paris, Jerome Smith** of **Economic Research Counselors, John Kamin** (editor of *The Forecaster),* **John Exter, Rene Baxter, Thomas J. Holt, C. Vern Myers, James Sinclair, Gary North, Henry Mark Holzer, Walter Perschke, Norman Lamb, Dennis Turner,** and many others.

The general emphasis of the speakers was, understandably, "gloom and doom," with differences principally on matters of timing and detail. There were differences of opinion regarding the near-term outlook, with most expecting a resumption of high inflation rates relatively soon (although Vern Myers stated flatly that we are now in a period of sustained deflation). Among the more sophisticated analyses, supported by extensive charts and graphs, were those of Dr. Boeckh and Donald Hoppe. Boeckh expects the next round of inflation to be massive, and pointed out that the economy is in very poor shape to withstand it. In particular he thinks the corporate sector is in worse shape than in 1929 and is slowly going bankrupt by eating up its capital to maintain dividend payments. Hoppe focused on the various market cycles, illustrating the longest-term cycle of 54-year peaks in inflation rates (e.g. 1865, 1920, and 1974) and comparing the current rise to the earlier ones (so far, this one is less severe, percentagewise). Hoppe expects no runaway inflation, but does predict a severe world depression by 1978-79.



Bryan Remer

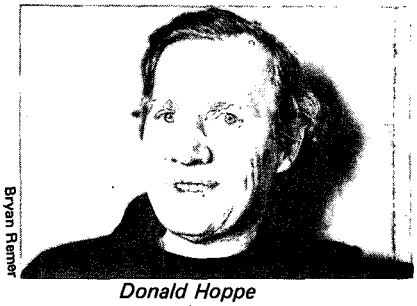
Conference speaker Walter Perschke

Dr. Harry Schultz explained (via tape from Amsterdam) his short-term bearishness on gold, but pointed out that he still expects gold to reach $250-260 by year-end, and to continue generally bullish over the next several years. Rene Baxter and Jerome Smith both expect a rapid resumption of inflation, because of the strong political pressures created by unemployment programs, welfare, and the like. Baxter suggested avoiding dollars altogether, using Swiss franc banknotes (obtained from your local bank) for short-term cash storage. John Kamin emphasized various nontraditional investments as good inflation-beaters, such as lower-priced classic cars (e.g. 1960's Lincoln four-door convertibles), player pianos, antique guns, etc. Kamin suggested that the principal reason that interest rates are being forced down at present is to permit the Federal Government to get the lowest rates on the borrowing necessary to finance its huge upcoming deficits. One of the few bullish observers was Robert Bleiberg, who (partly because of Dow Theory signals and partly because of Contrary Opinion) expects a short-term bull market, not a depression.

The highlight of the Conference was the Saturday night banquet. The keynote speakers were **Roger MacBride** of the Libertarian Party and **William Rees-Mogg,** editor-in-chief of the *London Times.* MacBride made a well-reasoned case that economic and individual freedom are no longer important to either the Republicans or the Democrats, and offered the Libertarian Party as a viable alternative. Rees-Mogg discussed the soaring inflation in England, stressing the disastrous *social* consequences (noting that a 20 percent rate of inflation is about *four times* as harmful as a 10 percent rate). He traced German antisemitism in the 1920's and 1930's partly to the class hatreds and scapegoating inspired by runaway inflation, and noted the same kind of hatreds developing today in England. He then stated that throughout history no society using a gold-based currency had a serious inflation problem, while every society using paper money eventually did. He also cited examples of price stability during U.S. and English gold-standard periods, and concluded by deflating all of the common arguments against a return to gold. Rees-Mogg was given a standing ovation at the conclusion of his talk.

As mentioned, the Conference provided considerable opportunity for exposure of the participants to libertarianism. The Libertarian Party maintained a hospitality suite every evening, with free drinks and articulate LP members on hand. Every place at the banquet was provided with a folder from the LP containing a letter from **National Chairman Ed Crane,** various LP brochures and pamphlets, and a reprint of Roger MacBride's article "Happy Days Are Here Again" from the January 1975 REASON. Hundreds of participants sported buttons saying "Laissez-Faire," "MacBride in '76," and similar slogans. And a number of the speakers identified themselves with the libertarian point of view and advocated such policies as deregulation of industry and repeal of income taxes, in addition to the usual goals of sound money and balanced budgets.

In short, it was a monetary conference with real ideological zing. How many gold bugs came away from the event as confirmed libertarians is difficult to assess. But at the very least, a great many people had their thinking stimulated in a very positive way.



Bryan Remer

Donald Hoppe

R.I.P. NED HUTCHINSON

REASON sadly regrets to announce the untimely death of Ned Hutchinson, recently-hired National Director of the Libertarian Party. He suffered an apparent heart attack on Sunday, March 30 while playing tennis at Sacramento (Calif.) City College. He was 44.

Hutchinson was a founder of the United Republicans of California, and joined the administration of Governor Ronald Regan in 1967. He served as Reagan's appointments secretary from 1969 until January 30 of this year when he broke ranks with the GOP and joined the Libertarian Party, becoming the LP's new National Director. He was an extremely competent organizer, and losing him was a tragic blow to the LP and the libertarian movement.

Bryan Remer

FEMINISM

The Association of Libertarian Feminists has been founded to bring the libertarian viewpoint into the feminist movement. **Toni Nathan,** 1972 Libertarian Party Vice-Presidential candidate has formed the ALF for the purpose of providing speakers for feminist groups, to introduce them to libertarianism—and to introduce libertarians to feminism. Local ALF's are also being encouraged to organize to bring together feminists and libertarians in local areas. The Statement of Purpose of the ALF stresses the following purposes: To encourage women to become economically self-sufficient and psychologically independent; to provide an alternative to those women's groups which encourage dependence and collectivism; to promote realistic and factual attitudes toward female competence and achievement; and to oppose unjust legal discrimination against all individuals.

The ALF is working with the newly-formed **Libertarian Party Speakers Bureau** and has six libertarian feminist speakers lined up. They are **Lynn Kinsky,** editor of REASON, LP state and national Execom member, and former candidate for school board in Santa Barbara, CA [see "Frontlines," March & May 1975]; **Susan Love Brown,** LP of California Southern State Vice-Chairperson, co-author of *The Incredible Bread Machine,* and staff member of the Campus Studies Institute in San Diego, CA; **Kay Harroff,** former LP-independent candidate for U.S. Senator from Ohio in 1974; **Sharon Presley,** long-time libertarian-feminist activist, co-owner of Laissez Faire Books in New York and *LF Review* editor, and associate editor of Free Life Editions publishing company; **Fran Youngstein,** 1973 LP candidate for mayor of New York City, and LP national execom member; and Ms. Nathan herself.

Those interested in the ALF should write to Ms. Nathan at P.O. Box 10151, Eugene, OR 97401 (phone 503-484-1202). Those who want to obtain libertarian-feminist speakers for local libertarian, feminist, or other groups should write to the LP Speakers Bureau at 550 Kearny St., San Francisco, CA 94108 (phone: 415-986-1834).

Feminist speaker Lynn Kinsky

CALIFORNIA LP

On March 22-23 the **Libertarian Party of California State Executive Committee** met in Santa Barbara to decide the party's main political tactics for the year. After heated debate on the subject, the Execom voted to put the main emphasis on a ballot initiative drive to have the words, *None of the Above,* placed on every election ballot in the state. An alternative resolution to put the main emphasis on a voter registration drive to attain ballot status for the LPC failed. The drive, if approved, would have meant a goal of 61,000 people registered as Libertarians by January 1, 1976. The main arguments against the drive were that the LP did not have the strength (in money or present membership) to come anywhere near the goal, and that even if they could get on the ballot now they would no longer be able to require "purity" of members and candidates (in California, once a party gets on the ballot, anyone may join and be a candidate without restrictions).

A few months ago, a bill was introduced into the California legislature to place *None of the Above* on election ballots, but with no effect on the election outcome (i.e., the top candidate, even if beaten by *None of the Above,* would be elected). Although this bill was recently approved by the appropriate committee, it is given little chance of passage in the Legislature. The idea *has* generated a lot of vocal support from all over the political spectrum, however. The LP initiative would specify either leaving the office vacant or having a special election if *None* won. Attorney **Dave Bergland** is putting together the proposal, and will decide which of the two (special election or vacancy) is most compatible with current election laws. If the initiative can be implemented by changing a statute, it will require 315,000 signatures to get it on the ballot as a Proposition; if it requires a constitutional amendment, 505,000 signatures will be needed. Many nonlibertarian groups have pledged support for the initiative, and the drive is expected to bring a lot of new members into the LPC. The drive is expected to start in July, and a total of five months are allowed for circulation of the petitions. If successful, it would place the proposal on the June 1976 primary ballot and would, if passed, take effect in time for the November 1976 general election in California.

Anyone who is interested in the initiative drive should contact Dave Bergland, 6832 Silver Beach Circle, Huntington Beach, CA 92642. For further information on the LPC write to P.O. Box 71383, Los Angeles, CA 90071 or phone 213-345-FREE.

THE ECONOMY IN CRISIS

"The Economy in Crisis: Analysis and Forecast" will be the theme of the first **Monex International** sponsored educational symposium according to **Dr. Patrick M. Boarman,** Monex Research Director and symposium coordinator. (Monex is a firm specializing in the purchase and sale of precious metals and foreign currencies.) The symposium will take place June 15-17, 1975, at the Beverly Wilshire Hotel in Beverly Hills, California.

The symposium will bring together nationally known speakers from business, government, and universities who will analyze the current economic crisis both here and abroad. Leading economists and financial advisors will examine investment opportunities in the light of the conditions that will be prevailing at mid-year. Late word has been received that the **President Gerald Ford,** who has been invited, may be able to appear or that he will be represented by a major Administration figure.

Others speakers will include, **Dr. Friederich von Hayek,** Nobel Prize Laureate in Economics, 1974; **Dr. Hans Sennholz,** Professor of Economics, Grove City College, Pennsylvania; **Dr. Neil Jacoby** of the Graduate School of Management, Universi-

ty of California at Los Angeles; **Wesley Hillendahl,** Vice President for Research, Bank of Hawaii; **Congressman Philip Crane** of Illinois and **Congressman Jack Kemp** of New York.

Also speaking will be **Leonard Silk,** economist and member of the Editorial Board, *The New York Times;* **Robert Bleiberg,** Editor, *Barron's;* **M. Stanton Evans,** Editor, *Indianapolis News;* **Professor Larry Kimbell,** director of the business forecast team, University of California at Los Angeles; **Ed Hart,** prominent West Coast financial analyst; and **Donald McLaughlin,** Homestake Mining Company.

For further information contact Monex International, Ltd., 4910 Birch St., Newport Beach, CA 92660, phone 714-752-1400.

TENNESSEE LIBERTARIANS

Frontlines correspondent **Mary Joyner** reports:

The first convention of the **Tennessee Libertarian Party** was held in Nashville on March 22 and 23 at the Holiday Inn East. The purpose of the convention was to discuss, amend and vote on the Party platform and by-laws and to elect officers for 1975. The Party affiliated with the National Libertarian Party last fall.

At the election the temporary chairman, **Jim Forrester**—the man responsible for founding the Party—was elected chairman. Three vice chairmen were elected, one to serve in each of the natural districts of the state: **Bob Williams** for west Tennessee, **Roger Bissell** for middle and **Clinton Anderson** for east. Also elected were delegates to go to the National Party Convention in late August.

The primary aim of the Party at this time is to influence the state legislature, but the longer range goal is to elect Libertarians to the legislature and to national offices.

The speaker at the banquet was **Roger MacBride,** who presented the group with a German stock certificate from 1923. His speech was about working harder and in more ways to prevent German-style hyperinflation from happening in the United States.

Informally, many topics were discussed; among them, how to get people who are personally and philosophically nonorganization types to join and create an effective organization in a country where only large organizations are able to get attention. Most agreed we need the organization, but . . . . And there the problem remains!

Prospective members may get information by writing to Tennessee Libertarian Party, P.O. Box 18165, Memphis, TN 38118.

Please send material for inclusion in FRONTLINES *to Lynn Kinsky at REASON, P.O. Box 6151, Santa Barbara, CA 93111. Meeting and activity announcements will be carried as space permits; however we must receive announcements two months before the actual event if we are to publish it as a "coming attraction" rather than as history. Tell us about your group, your activities, your strategies for social change in as much detail as possible. Items accompanied by photos are especially welcome.*

LUCIFER'S LEXICON
by L. A. Rollins

lend-lease, v.t. To give-grant.

liberation, n. Deliverance from bondage into servitude.

lynching, n. Participatory democracy applied to the judicial process.

misgovern, v.t. To institute a Reign of Error; to govern.

needy, adj. Greedy.

parity, n. In the U.S., the level at which the government must maintain agricultural prices in order to support the farmer in the manner to which he has grown accustomed.

FIVE ESSAYS

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S-2 **Freedom, Inequality, Primitivism and the Division of Labor, by Murray N. Rothbard.**
In one of his most perceptive essays on freedom, Dr. Rothbard—one of America's outstanding leaders of libertarian thought—challenges the popular "free and equal" philosophy of the New Left with the classical concept of liberty for all persons. He explains how men, by nature unalike, can be equally free yet benefit one another through specialization and the division of labor.

S-3 **A Theory of the Origin of the State, by Robert L. Carneiro.**
The anthropologist author of this pamphlet examines the most important step in man's political evolution. After discussing the flaws of the traditional voluntaristic theories, Dr. Carneiro proposes a circumscription theory. Warfare, environmental circumscription, resource concentration, and social circumscription are major elements of the theory, which shows the state to be a predictable response to specific cultural, demographic, and ecological conditions.

S-4 **The Ideology of the Executive State, by Robert J. Bresler.**
A political scientist explains how the ideological focus of American liberalism has shifted from the concepts of equality and democracy to centralized government, antidemocratic practices, and evangelical visions of global order. Abroad, the result has been "perpetual war for perpetual peace." At home, the executive branch has grown more dominant, isolated, secretive—while domestic affairs, Congress, and the public have taken a back seat.

S-5 **Kinds of Order in Society, by F. A. Hayek.**
In this pamphlet, Professor Hayek incisively examines the theories that underlie and buttress such social orders as a free-market economy and the division of labor. The more complex the social order at which we aim, the more we rely on spontaneous forces to bring it about, and the more our power of control is limited. Order is influenced not through intentional redesign of the whole, but through the slow evolution of the rules of law.

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reason profile

In the short space of four years since its founding in 1971, the National Committee to Legalize Gold (NCLG) became an organization of international importance with members in all 50 states and 18 foreign nations. The Committee's publication, *Gold Newsletter,* which is edited and written by James U. Blanchard, is perhaps the most widely followed publication on the subject of gold and monetary reform. As Blanchard says, "The committee was started over a beer in my living room, and in the meantime has accomplished its original goal and grown to a mailing list of over 20,000." NCLG recently changed its name to the National Committee for Monetary Reform (NCMR) and announced a three-point program: 1) prevention of the sale of U.S. gold reserves, 2) legalized gold contracts, 3) longterm education for a gold coin standard.

As Director of the NCLG and NCMR, Jim Blanchard planned and organized the two largest monetary conferences ever held: 750 attendees in January 1974, and nearly 1000 in March of this year. [See "Frontlines," this issue.] His approach has always been to combine long term education and political action. "Obviously, education is the only hope for a true libertarian society, but in the meantime, political activism can help prevent the general movement towards collectivism and in the longterm, education is the only way to reform if not remove the state."

A long-time New Orleans resident, 31 year old Blanchard is also a full time businessman. He owns his own investment advisory company and charges $100 per half hour for consultation. He is co-owner and co-editor of the weekly *Kaffir Trac,* a computerized study of the South African gold shares, and he also owns 50 percent interest and heads the American office of Orleans-Brazilian Export-Import.

Mr. Blanchard graduated from Louisiana State University, New Orleans with a major in history and taught for several years before founding the NCLG. He became interested in libertarianism in 1961 after reading the works of Ayn Rand and was a business manager for the Nathaniel Branden Institute.

JAMES U. BLANCHARD, III

Although he has a heavy workload from his business interests, he and his French-Ukrainian wife, Jacqueline, love to travel and they are away from New Orleans about 2 months a year. In addition to making money and traveling, his favorite pasttimes are reading, movies, New Orleans food and fine foreign beer. His two hobbies are gold coin collecting and historical Americana, especially of the Revolutionary War period. ◻

letters

SKINNER VS. MACHAN

I have read Tibor R. Machan's criticism of B. F. Skinner in the January 1975 issue of REASON, and find that both of them seem to have ignored an important psychological premise in their arguments.

It seems to me that when human conduct is faced with an external challenge demanding a decision of position, it does not have all that much freedom of choice as implied by Mr. Machan and ignored by Skinner. Why? Because each individual by then is mentally locked into a position on the subject and responds accordingly.

It is common knowledge that we are born with a complement of brain cells (computer-like tapes) on which practically nothing has been recorded. Also that from the event of birth forward, we are constantly recording on those cells (1) experiences received from our environment through our sensory equipment and (2) the experiences and preferences of others which we receive as education from our parents, siblings, teachers, religion etc.; what one might call indoctrination.

As children we accept all indoctrination as true and factual because it is received from persons we regard as authorities and are thus thought to be infallible.

But as we mature we become a bit choosy, we try to bring into consonance all the miscellaneous information which is cluttering our brain cells. We alter, change, discard, correlate, and ultimately arrive at a posture for each category of information which we feel is correct or "true" because it satisfies our philosophy of life and of the universe.

The result is a complement of values strictly personal, strictly our own. This is naturally an ongoing process, and the more we reinforce any given value by new information which we accept for it, the stronger it becomes, and the more dominant and decisive our potential to respond in a predestined manner when the value is challenged.

Decision making is automatic when the question asked and the results desired are in consonance with a person's values. Under such circumstances choice becomes acquiescence to pre-determined response potential.

But when the problem posed and an individual's values are in conflict, an attitude of hostility results, and freedom of choice becomes a propensity for one to pursue the attitude based upon his preconceived and chosen values.

All of which makes me conclude that one is far more a free agent at the point of integration of accepted materials into his value system than he is at the point of making a choice when the subject of the decision he must make is in conflict with his accepted and integrated values.

Millard R. Kreinheder
Sun City, AZ

Dr. Machan replies: Some of what Mr. Kreinheder says could be correct without any change implied for my criticism of Skinner. I won't attempt here to explain how that might be. The point worth disputing is Mr. Kreinheder's view on the development of ideas in children. First, he offers no argument for his claim. Second, experience on even a common sense level goes against it: hardly anyone picks up everything offered to him (ideas, claims, theories, explanations, values, information, etc.) in childhood; some of what is picked up gets discarded soon; the

"authorities" are not actually taken as such even when their claim to that position is sound; different authorities tend to offer different perspectives, sometimes contradictory information.

I agree that we tend to determine ourselves during our maturing years. But since we *could* change, with effort, our freedom—which means our capacity for initiating our mental function of, e.g., conceptual inquiry—stays with us. Changing need not be easy to be possible. But we are not set on some irreversible tracks somewhere in adolescence. The idea is philosophically absurd—and no science has ever overturned a sound philosophical point! —T.R.M.

RIGHTS WITHOUT JUSTICE

I congratulate Richard Warshak for his cogent review of Walter Kaufmann's *Without Guilt and Justice* [March], and second his recommendation of this book to those who pursue a challenging perspective on life. There is a clarification, however, that should be made regarding Kaufmann's "utilitarian" approach.

It is true that Kaufmann concentrates on questions of *how* the concept of justice is used in society: what do we intend when we speak of it, how can it be sought, and how is it manifested, if at all? In other words, Kaufmann explores the social *function* of the concept—and concludes that, in many cases, the concept of justice (reward for virtue, punishment for vice) is often superfluous (and sometimes pernicious) as a framework for responding to social problems.

This emphasis on the functionality of concepts ought not to be confused with utilitarianism, which embodies the over-reaching moral principle of majority supremacy. Although utilitarians may argue on grounds of social functionality, their considerations are prejudiced by their ethical position—analogous to the Marxists, who argue economics through the prejudice of the labor theory of value. Considerations of how concepts function in society are no more inherently utilitarian than considerations of how the *market* functions in society.

Indeed, Kaufmann's point is akin to a well-known maxim of economic theory: it is both meaningless and pointless to ponder the value of a *fair* price, when one can only realistically contend with *actual* market prices. So also, talk of "justice" is futile, when one can only contend with one's actual fortunes in life.

Kaufmann does not discuss rights, but his treatment of "justice" indicates a perspective that could enable libertarians to formulate rights theory without recourse to the idea of justice.

In sympathy with Warshak's reluctance to abandon the "just" heroes of one's youth, I might add that one should never have to feel loss upon achieving a wiser perspective than that of one's heroes. Kaufmann, in rejecting guilt and justice, shows us that human responsibility must stand on the recognition that autonomy of action must entail *autonomy of one's ethical perspective!* This is an insight I urge all libertarians to investigate.

Mike Dunn
Seattle, WA

Mr. Warshak replies: Kaufmann certainly does a thorough job of exposing the numerous difficulties with popular notions of retributive and distributive justice. In terms of the way society uses "justice," one could not quarrel with the conclusion that the concept leaves much to be desired. However, because a concept is misused by many, or has been poorly defined in the past, is not sufficient reason for dispensing with the concept entirely.

As I point out in my review, it is the concept of desert, which underlies justice,

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that Kaufmann is attacking. Throwing out the concept of justice makes meaningless any idea of that which a person deserves or is entitled to. And although it is true that "society" misuses this idea, I personally find it helpful in defining my responsibilities toward others and my expectations of them. I would like to see ethical and legal philosophers respond to the challenge presented by this difficult concept by clarifying what is meant by justice.—R.W.

EUGENICS

Some comments concerning Susan Love Brown's well-formulated article "The Rape of the Black Mind" [January]:

One area upon which Ms. Brown does not touch in tracing the development of the collectivist attitude among blacks is the early history of the eugenics movement. Eugenics began with the work of the important scientific innovator Sir Francis Galton during the 1870's and 1880's, and by the early years of the present century had gained a large and respected following. During these early years, eugenicism was much involved with the notion of genetic inferiority among darker skinned peoples and considerable "scientific" effort was expended in supporting this position. Among those dedicated to the ideal of racial inferiority were many of the prominent collectivist scientists and social reformers of the day. The idea of racially and ethnicly linked genetic inferiority lost respectability rather abruptly in the early 1930's as a result of its enthusiastic adoption by the German National Socialists. However, during its years of prominence it served as justification and inspiration for much of the Jim Crow legislation which remained in force into the 1950's and 1960's. The importance of our being aware of this phase of the eugenics movement is that one of the ways in which the collectivists have gained black support in recent years is by presenting themselves as the traditional supporters of the ideal of human equality. There are, of course, other historical examples of collectivist support of racism and ethnocentricism. This one, however, has received relatively little attention, especially considering its importance.

The thrust of Ms. Brown's article is almost wholly psychological, something which, unfortunately, is not too common in individualist writing. With a few notable exceptions, the orientation of libertarians and conservatives alike tends to be ethical or economic. It is important to point out that coercive collectivism is immoral and economically inefficient. However, that it also is emotionally and developmentally disastrous to the persons subjected to it seems, to me, to be a much more serious charge.

G. T. Atwood
Canton, OH

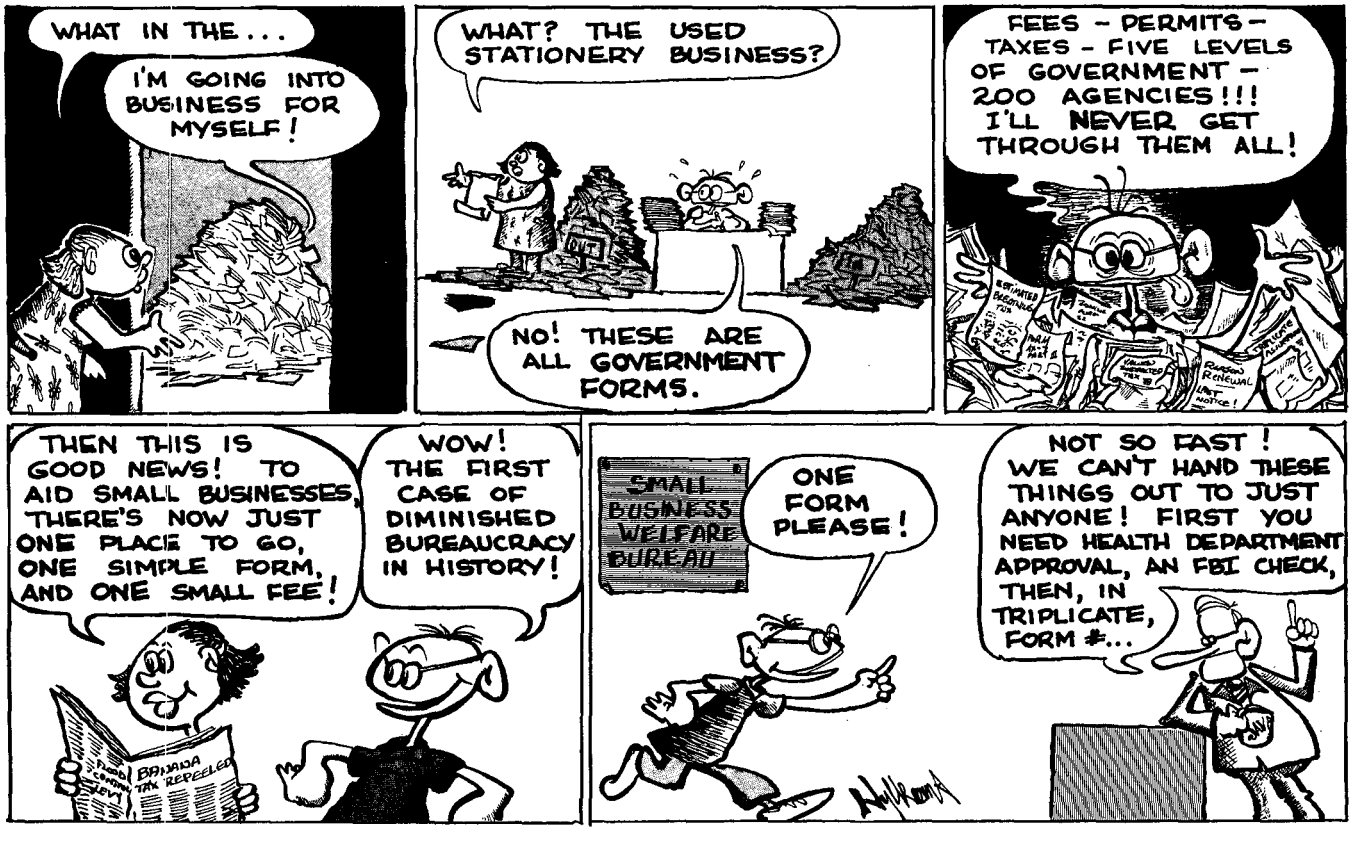
COLLECTIVE BENEFITS

Susan Love Brown has added another dimension to libertarianism with her treatment of black oppression and collectivism. But her analysis hints at a basic problem of libertarians—a failure to appreciate fully the causes and benefits of collective associations.

She says: "It matters not one iota to the mental well-being of the individual . . . whether he has shared with others the experience which has torn his mind asunder . . . ." But it *does* matter: simply the knowledge that others have suffered the same injustices and been prevented from enjoying the same rights is an enormous benefit to the individual. It enables him to put his persecution in context; he has objective evidence that *he is not insane, his persecutors are.* It would be wrong to use the experiences of others as the sole source of feedback—but as one source, it is comforting in its consistency with internal logic. That comfort can make the difference between cynical withdrawal and self-confident openness.

rudebarbs

RANDALL K HYLKEMA


WHAT IN THE...
I'M GOING INTO BUSINESS FOR MYSELF!
WHAT? THE USED STATIONERY BUSINESS?
NO! THESE ARE ALL GOVERNMENT FORMS.
FEES - PERMITS - TAXES - FIVE LEVELS OF GOVERNMENT - 200 AGENCIES!!! I'LL NEVER GET THROUGH THEM ALL!
THEN THIS IS GOOD NEWS! TO AID SMALL BUSINESSES, THERE'S NOW JUST ONE PLACE TO GO, ONE SIMPLE FORM, AND ONE SMALL FEE!
WOW! THE FIRST CASE OF DIMINISHED BUREAUCRACY IN HISTORY!
SMALL BUSINESS WELFARE BUREAU
ONE FORM PLEASE!
NOT SO FAST! WE CAN'T HAND THESE THINGS OUT TO JUST ANYONE! FIRST YOU NEED HEALTH DEPARTMENT APPROVAL, AN FBI CHECK, THEN, IN TRIPLICATE, FORM #...

No individual must, or I believe can, survive in a cultural vacuum. The individual mind can do many things—but it is not self-directing. No philosophy is born full-grown from the mind of one human being without consideration of the entire context—especially the cultural climate—of the individual.

It is not just the increase in standard of living and varieties of vocations which result from a social collective and a division of labor. There is the issue of why some cultures developed one way, and others, in opposite directions.

Contributing factors include geography, meterology, and history. For example, the number of countries having both discrete north and south regions in which the pattern of industrialization and intellectual development followed that geographical boundary is striking. Among those countries are France, Italy, the USA, India, and the Vietnams.

As far as history is concerned, cultural atmospheres and traditions are conservative, self-perpetuating phenomena—necessarily and beneficially so. It is a beneficial situation because those cultures which have self-defeating traditions fail to survive as time goes on. In the long run, the traditions which survive are those which enhance survival.

The danger inherent in that circumstance is one which could only have become apparent when traditions became separated from the contexts which bred them. Industrialization and emigration have been the greatest destroyers of that relation, but recently communication and even archeology have been causing similar upsets of cultural integrity.

But the facts remain: Aristotle could not have formulated his rules of logic or ethics in another cultural milieu; Copernicus could not have reasoned and substantiated his way to another cosmology a millenium earlier; the Industrial Revolution could not have started in Australia; *Les Miserables* could not have been written by anyone other than Hugo and still be *Les Miserables*. A is A. The past contains the seeds of the future. The social, political, geographical, and historical climate nourishes the seeds; there is no spontaneous generation, either of life or of philosophy.

Individuals do *not* have to rely solely on their own minds to survive. Language and the printing press made that impossibility unnecessary.

I do owe a debt to Galileo, to Michelangelo, to Pasteur, and to the other thousands of scientists, inventors, artists, and industrialists whose works I enjoy today. To be sure, in most cases they would have done the same things even if I was not to enjoy their works. But their work has made by enjoyment possible.

The debt I owe to the individuals of the past is the acknowledgement of their achievements as being *theirs*. I fully expect "the future" to accord me the same honor; I certainly intend to be worthy of that honor. In the long run we are not all dead. A culture is an individual's means to immortality, if he uses it.

Daniel M. Karlan
Highland Park, NJ

Reason's Letter of the Month

The letter below, by subscriber Jon H. Appleby, appeared in the March 15, 1975 issue of the *Los Angeles Times:*

NEW YORK-STYLE RENT CONTROLS OPPOSED HERE

New York-style rent controls proposed by state Sen. David A. Roberti (Times, Feb. 24) will bring to California New York-style housing shortages.

Unlike most other cities, New York chose to continue with rent controls begun during World War II. And, unlike most other cities, New York has suffered from a continuing housing shortage.

Allowable rents did not fully cover repairs on numerous older buildings, many of which were subsequently abandoned. Over the years inadequate numbers of new apartments were constructed to meet the growing needs. Today, New Yorkers regularly scan the obituary columns to spot vacancies.

While a temporary holdup of rent increases is possible with controls, they are self-defeating in the long run. Financing, which normally would be put to work to relieve an impending housing shortage, will be diverted elsewhere. In practical terms, rent controls mean an increase in investment risks without a corresponding increase in profits. In the long run, alternate investments such as government bonds, stocks, industrial real estate, etc., become more attractive if only because they offer less comparable risks. In the short run, it is perhaps ironic that the threat of controls is causing some of today's rent increases. Current issues of real estate journals are urging apartment owners to be in a position to last several years if rents were to be frozen in the near future. Like automobile manufacturers, apartment owners can't afford to be caught with their base prices down.

Roberti should be applauded for his concern for the elderly and his desire to help them during this difficult economic period. However, other means such as tax reductions or rebates should be utilized rather than instituting controls.

Time and again political attempts to manipulate the economy have led to disruptive consequences and serious hidden side effects. Price controls on poultry led to the destruction of thousands of baby chicks. For much the same reason, price controls or rents will lead to the elimination of plans for thousands of apartment units. This kind of help everyone, including the elderly, can best do without.

Jon H. Appleby
Los Angeles, CA

REASON subscribers are encouraged to write letters to the editor of their favorite newspaper, magazine, or journal, presenting libertarian views on topics of current interest. Each month REASON selects the most notable published letter for republication in this space, and honors the writer by a six-month extension of his or her REASON subscription. Send copies of your published letters to Reason Letter of the Month, Box 6151, Santa Barbara, CA 93111.

FLP LOSES

I was interested to see the results of the New York governor's race ["Frontlines," February]. However, they were reported in an unduly optimistic light, it seems to me. Notable is the fact that the Free Libertarian Party (FLP) spent $65,000 for its 10,503 votes. Yet it was outpolled by the Courage (American) Party, which spent less than one tenth of that amount. Also, the FLP's goal of 50,000 votes to gain a permanent line on the ballot was not achieved. This failure, I submit, was due in part, at least, to the fact that it blew a chance to support, in the Senate race, a man with political experience, impeccable libertarian credentials, and a thorough understanding of the economic picture—Mr. Percy L. Greaves, Jr. The Libertarian Party can ill afford such mistakes if it seriously hopes to exert any influence on the course of politics.

Matthew Krogdahl
Brooklyn, NY

UNITED WE STAND

A disturbing trend has become obvious in recent issues of REASON, a trend symp-

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tomatic of the libertarian movement at large. The letters section of this magazine has become the forum for increasingly acrid denunciations of some libertarian viewpoints by adherents of other viewpoints. Ayn Rand has become a favorite target for many. Murray Rothbard's ideological purity has been questioned. The low point was reached with the astonishing attack upon Milton Friedman in the March issue.

The diversity of opinion within the broad libertarian perspective has always been one of its prime attractants. A tolerance for differences within that perspective was an integral factor in the movement's vitality. What has happened to that tolerance?

The proponents of autarchism, Objectivism, classical liberalism, and libertarianism have a long road to travel together before their philosophical differences cause them to diverge. Those differences cannot be ignored, but they have no immediacy until we have done the many things at the outset which all libertarians acknowledge as necessary. We must not indulge in sectarianism. To do so will ultimately result in a proliferation of libertarian factions, each too small to have any impact by itself, all having lost the opportunity to achieve success had they worked together.

Leo M. Alves
Chicago, IL

PRAISE

Your article "Collecting Coins for Fun and Profit" by Robert B. Crim in the January issue, I thought was a pretty fair view and enjoyed it very much.

Bruce M. Abrash, President
Numismatic Funding Corp.
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CONGRATULATIONS

Heartiest congratulations on your interviews with Friedman and Hayek in the December 1974 and February 1975 issues of REASON. These were highly informative and totally fascinating. The interviews give an insight not only into the economic views of these men, but into the trend of their recent thoughts on other political and social issues, some of which have never appeared before in print. Particularly fruitful for libertarian readers are the aspects of their thought which differ from libertarianism, as an aid to cross-fertilization of ideas rather than simply a re-absorption and reinforcement of libertarian ideas. The questions asked by the interviewers were apparently well thought out in advance, and acted as excellent catalysts for evoking the most interesting responses. I hope REASON will run more interviews of this nature.

John Hospers
Los Angeles, CA

DIFFERENT DRUM

I was greatly pleased to read the letters in REASON [March] that you printed in response to "Uncle Miltie" Friedman's interview that appeared in the December issue.

I see that many others have recognized that "Uncle Miltie" is no more a libertarian than Richard Nixon. If there were a way to "drum" some one out of the libertarian movement, we should invent it and apply it in his case.

I admire your courage in printing his confused statements so as to expose this charlatan. Keep up the good works.

David Michael Myers
Hughesville, MD

CONTRITION

James Carey's review of *Young Frankenstein* ["Movies," March] has straightened me out. Although I have some experience as a comedy writer and, perhaps, should have known better, I confess that, when I saw *Young Frankenstein,* I made the mistake of being very amused by it (even to the point of laughing quite hysterically during one scene). However, Mr. Carey has informed us that *Young Frankenstein* "is not very funny," and so I now realize that my reaction to it was inappropriate. Therefore, the next time I desire to be greatly amused, I will not go to see *Young Frankenstein* again (as I had previously intended). Instead, I will re-read Mr. Carey's hilarious review of it.

L. A. Rollins
Hollywood, CA

RANDROID?

I must respond to Alan Scott Kaufman's letter [March], if only to say why it is not worthy of response: I cannot imagine anyone who is more than superficially familiar with libertarianism and the Libertarian Party thinking or writing in this manner. It would be tedious to point out all the errors of fact and of interpretation presented in that letter. The issue is broader than one man's views anyway; it keeps cropping up, and it seems to be difficult for many to deal with. That issue is: what to do about Ayn Rand's attitude towards the libertarian movement. It is, after all, embarrassingly uncomfortable to have one's mentor frowning at one's political activities, and denouncing them at every turn. The manner in which the students and disciples of

Rand deal with her disapproval serves as a good measure of how well they have learned the lessons she has to teach.

I suspect Mr. Kaufman regards himself as an Objectivist; his letter presents ample evidence that he is instead one of those slavishly unthinking idolators of Rand who, having read *Atlas Shrugged,* concludes that no further thought is necessary, because Rand has all the answers. May I remind him, and others like him, of some of the primary tenets of Objectivist epistemology: one's conclusions and judgments must be guided solely by the evidence of reality; any new information must be integrated into one's previous knowledge before use can be made of it; and one must be constantly prepared to revise one's estimates and conclusions based on new data. These principles, applied, mean that one must be careful in making the kind of sweeping charges indulged in by Mr. Kaufman. That some libertarians are publicity-seekers and "swingers" does not constitute proof that libertarians in general are frivolous; that some libertarians are anarcho-capitalists does not constitute proof that any one of them is irresponsible; that one libertarian may have revised history incorrectly does not constitute proof that libertarians are ignorant or vicious.

The same principles apply, of course, to Rand: that she has in the past been both brilliant and mistaken (at different times) does not indicate that all her work is either one or the other. It has simply been what it has been—often brilliant, sometimes mistaken.

Mr. Kaufman closes by insisting that the libertarian movement has disowned Ayn Rand. I would like to close by suggesting that such an action would be impossible—libertarians and the libertarian movement simply do not possess that sort of unanimity of opinion.

Paul Pferdner
Portland, OR

AMNESTY

I was interested to read Ms. Nathan's position on amnesty for draft evaders, etc. ["Letters," December] not because this position is new to me, but because it is the same position which I have been hearing for years from by arch-conservative friends in YAF. With all respect to Ms. Nathan's other political and philosophical positions, which may be libertarian, this one is not.

Libertarianism asserts that individuals come before the law. If the law has any purpose at all, it is to protect the rights of the individual (see, for example, the Declaration of Independence). Therefore, logically, the law must take a back seat to individual rights where the two are in conflict.

In fact that the selective service law is on the books is no more reason to obey it than the fact that Article 58 of the Soviet law is on the books is any reason for a Soviet prison camp inmate not to escape from the GULag archipelago.

Last, but not least, I have a personal interest in Ms. Nathan's answer to a question which has gone unanswered every time I put it to others who hold positions similar to Ms. Nathan's: What is her stand on the question of amnesty for gold bullion owners?

Charles R. Curley
Los Angeles, CA

UTOPIANISM

Richard Evers states ["Letters," February] that Ursula K. LeGuin's novel, *The Dispossessed,* portrays a "functioning libertarian society (of the anarchist communal type)." Although Ms. LeGuin's novel is of interest to libertarians Evers is being generous with the use of the term "libertarian," if not also with the term "functioning."

The question of whether communal anarchism can ever be libertarian is outside the scope of this letter. However, the society depicted in *The Dispossessed* fails to meet libertarian standards on several major points. Perhaps the most fundamental departure is the refusal of the "government" of the supposedly anarchist colony to permit free immigration and emigration on its planet, a policy characteristic of the most totalitarian societies. It should be noted that this is not a proprietary community formed by voluntary contract, but that the present population has been born into this Utopia.

Shevek, the hero of the novel, leaves the Utopian colony at the risk of his life, because its intellectual bureaucracy is suppressing his theories. Far from being a contented Utopian, Shevek is disillusioned by a society which thwarts his academic developments and whose economy is run by a "Production and Distribution Council" which has the power to send him and his "wife" to opposite ends of the planet for several years while its already abhorrently inefficient economy is in a temporary "recession."

The value of this novel for libertarians, contrary to Ever's assertions, is in showing that liberty consists of more than nominally eliminating government.

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HOW DO WE LIMIT GOVERNMENT? Tibor Machan and Leonard Read [April] are guilty of intellectual dishonesty. They like every other "limited government advocate" that I have read, go around advocating a "principled government—a government limited to where it should be limited . . . ." *but* (and it's a big *but*), they *never, never* tell us exactly *how* they propose to limit a government that does not want to be limited. This is not a question to be taken lightly, for it is the very *heart* of a "limited government" system that could work.

The patent office used to require inventors to submit working models of their inventions before a patent would be issued. Perhaps, such a request is in order for those who have "invented" limited government. Let us see a "working model" so that we can really believe the claims laid to this "perpetual motion machine."

David Michael Myers
Hughesville, MD

Dr. Machan replies: There is no way to limit a government that does not want to be limited regardless of cost. Since this is true of anyone capable of wielding power, defense agents, guards, little old grandmothers, etc., it poses no more of a problem than would any other system. It might be worth noting that I refrain from using the term "limited government" because the concept "government," *properly defined,* already imposes the limitations on what must be meant by this term. To talk of limited marriages, limited dancing, etc. The law of identity would appear to impose limits on anything that exists and could exist. Government that is what government must be is no more limited than anything else in this position.

As to my intellectual honesty, I doubt that it is a topic for a two paragraph tirade. Mr. Myers ought to limit his own scope according to his powers.—**T.R.M.**

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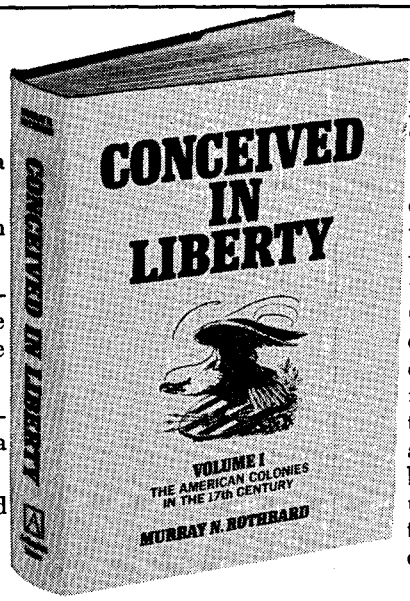

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